



# Summary report Assessment-based national dialogue on social protection Lao People's Democratic Republic





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Assessment-based national  
dialogue on social protection  
Lao People's Democratic Republic**

**June 2017**



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# Forward

Social protection is important for protection basic livelihood of people, at global and regional level, there are several declarations, conventions and provisions to extend social protection to all. Particularly, declaration of human rights, convention on social, economic, cultural rights, ILO's recommendation 202 (2012). At regional level, there is ASEAN Declaration on Strengthening Social Protection adopted at the 23rd ASEAN Summit in Brunei Darussalam in 2013.

Social protection is also one of important targets of the Sustainable Development Goals in recognition of the importance of social protection in reduction of poverty and inequality. Lao PDR has high commitment to implement and translate periodically the content of the international and global declarations, conventions and provisions into the policies and social-economic development of the parties and the government.

To ensure the above commitment and to develop the fundamental basis for social protection development, Drafting Committee of National Social Protection Strategy led by the Ministry of Labour and Social Welfare in cooperation with concerned partners and sectors at central level, mass organizations and development partners with support from the International Labour Organization conducted this assessment based national dialogue on social protection. The exercise used the methodologies and social protection floor as guiding tools to assess the current social protection situation and social protection related programme in Lao PDR to develop policy recommendations for the development of social protection.

Assessment based national dialogue in Lao PDR is a useful tool for Lao PDR to promote and development social protection based on social protection floor recommendations and according to the situation of the country, especially the affordability in terms of resources, economic capacity as well as financial capability and appropriately design for the country's situation.

Assessment based national dialogue is a first step towards the national social protection development and extension. It is a fundamental basis for the national social protection strategy development for Lao PDR in the near future.

**Vice Minister**

Ministry of Labour and Social Welfare  
(Head of Drafting Committee of National  
Social Protection Strategy of Lao PDR)



Baykham KHATTIYA



In 2015, Heads of State and Government from around the world decided on a set of universal, transformative and integrated Sustainable Development Goals. They resolved to end poverty and hunger, to build peaceful, justice and inclusive societies, and to achieve a world where all people enjoy a basic standard of living, including through equitable and universal access to quality education, health care and social protection. In this context, the Social Protection Floor concept refers to a basic set of social protection guarantees that empower all members of society to access a minimum of goods and services at all times.

A large part of Lao PDR's population still lacks access to adequate protection from a variety of social and economic risks. This is especially true for those outside the formal economy and those living in poverty, who are not part of formal social security arrangements. Particularly affected are children, women, people with disability and older persons. Families who have barely emerged from poverty are at a high risk to fall back into poverty when hit by an unexpected crisis. While different social protection schemes are already in place, there is not yet a strategic approach to social protection across line ministries and agencies and across the population.

In line with the Sustainable Development Goals, ILO's Social Protection Floors Recommendation 202 (2012) and the ASEAN Declaration on Strengthening Social Protection, the Government of Lao PDR is therefore committed to develop its first ever National Social Protection Strategy with the objective to extend health insurance coverage to 80 percent of the population by 2020, to reach universal health coverage by 2025 and to extend social protection coverage to every citizen by 2030. Achieving these important objectives will require significant efforts by the Government and support from the international community, including the United Nations. Enhancing access to social protection benefits, in particular for vulnerable groups and the poor, is one of the eight main priorities of the Lao PDR - UN Partnership Framework (2017-2021) and one of the four priorities of Decent Work Country Programme (2017-2021).

To contribute to these objectives, the Assessment-Based National Dialogue on Social Protection has mapped current policy gaps and implementation challenges, and provided policy recommendations towards a gradual introduction of a social protection floor in Lao PDR. This was complemented by the development of various scenarios, including costing. The engagement of a broad range of stakeholders in the dialogue has contributed to increase awareness among national stakeholders and development partners on the importance of social protection and to a common vision on social protection in Lao PDR. We hope that the results of the Assessment-Based National Dialogue which are captured in this report will provide solid evidence for the Government, and in particular the Drafting Committee of the National Social Protection Strategy, for the right decisions towards the establishment of a strong social protection system for all.



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UN Resident Coordinator in Lao PDR



**Graeme Buckley**

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ILO Country Office for Thailand, Cambodia  
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The authors, however, are solely responsible for the content and any opinions expressed in this report.

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<sup>1</sup> Silas Theile and Dr Michael Cichon produced this report, drawing on an earlier draft authored by Sinta Satriana.

# Executive summary

## Assessment-based national dialogue on social protection (ABND)

The ABND was conducted under the oversight of the Government's Drafting Committee for the National Social Protection Strategy under the leadership of the Ministry of Labour and Social Welfare, with technical support from the International Labour Organization (ILO) and the joint support of other UN agencies. It applied a participatory approach comprising a series of consultative meetings and national dialogue workshops leading to the production of a final report endorsed by the Government.

The ABND exercise is based on an ILO methodology designed to assess existing social protection programmes and to develop appropriate recommendations regarding the extension of a social protection floor (SPF), providing basic income security for all, especially the poor and vulnerable. The ABND represents an important step towards the development of a nationally defined SPF, and is intended to serve as input for the development of a national social protection strategy by the Government.

The ABND has provided a unique opportunity to coordinate all key stakeholders in the following aims: (1) developing a common diagnosis of the prevailing social protection situation; (2) formulating consensual priority policy options; and (3) defining a common vision for the extension of social protection. The stakeholders progressively achieved consensus through consultations, dialogue workshops, and technical sessions where the proposed policy options were discussed and revised to take account of budget requirements and fiscal constraints. The process of reaching consensus also included costing of policy recommendations and analysis of fiscal space to inform discussions of priority policy options and financing options.

## Objectives

The ABND pursues the following goals:

- developing a joint comprehensive diagnosis of the existing social protection system among key stakeholders in the country, including Government, CSOs, academia, United Nations (UN) agencies, development partners and tripartite partners;
- identifying priority areas for the Government's intervention in social protection, and for the measures necessary to gradually establish a comprehensive, rights-based, and systemic SPF;
- supporting evidence-based decision-making towards designing social protection policies, and developing a national social protection strategy in the future;
- ensuring that proposed new schemes and benefits are financially sustainable, and providing a basis for discussions of fiscal space and financing options; and
- raising awareness of the SPF, and building technical capacity for policy design and costing, among ministries, government agencies and stakeholders.

## Methodology

Step 1: Developing the social protection assessment	Step 2: Costing of policy scenarios	Step 3: Finalization of ABND report for endorsement
<ul style="list-style-type: none"> <li>• description of the existing social protection system;</li> <li>• identification of policy gaps and implementation issues; and</li> <li>• recommendations to complete the SPF.</li> </ul>	<ul style="list-style-type: none"> <li>• costing of specific policy scenarios based on recommendations; and</li> <li>• fiscal space analysis and discussion of financing options.</li> </ul>	<ul style="list-style-type: none"> <li>• endorsement by Committee on Social Protection and by higher government levels as a basis for development of a national social protection strategy; and</li> <li>• advocacy for a SPF as a whole and for individual recommendations.</li> </ul>

## Social protection floors (SPFs)

The SPF framework provides the conceptual basis for the ABND. It supplies a relevant tool to frame social security, social welfare, and poverty reduction programmes, and to identify the measures needed to establish a more comprehensive and entitlement-based national social protection system.

The SPF concept originated with a joint UN Social Protection Floor initiative to support countries in planning and implementing social protection schemes and essential social services. Given that this objective transcends the mandate of any single body or agency, the initiative built a global coalition of UN agencies, the International Monetary Fund (IMF) and the World Bank, as well as development partners and leading non-governmental organizations (NGOs).

The UN concept of the SPF has been translated into ILO National Floors of Social Protection Recommendation, 2012 (No. 202). This Recommendation provides guiding principles for the building of nationally defined SPFs, and reaffirms that SPFs are economically affordable and that they can be introduced, completed and maintained everywhere in accordance with national circumstances.

SPFs are nationally defined sets of entitlements established in law that enable and empower all members of society to access a minimum of goods and services at all times. They can include the following protections:

- transfer in kind, such as essential services, referring to the provision of and access to services such as health, education, adequate nutrition, water and sanitation; and
- transfers in cash, referring to cash benefits to provide basic income security in situations of reduced income-earning capacity.
- The SPF consists of four guarantees<sup>2</sup> to be provided to all members of society:
- access to a nationally defined set of goods and services comprising essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;
- basic income security for children, at least to a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services;

<sup>2</sup> ILO: Social Protection Floors Recommendation, 2012 (No. 202), para. 5, [http://www.ilo.org/secsoc/areas-of-work/legal-advice/WCMS\\_205341/lang--e201n/index.htm](http://www.ilo.org/secsoc/areas-of-work/legal-advice/WCMS_205341/lang--e201n/index.htm) [accessed 15 Aug. 2017].

- basic income security, at least to a nationally defined minimum level, for persons of active age who are unable to earn sufficient income, especially in cases of sickness, unemployment, maternity and disability; and
- basic income security, at least to a nationally defined minimum level, for older persons.

Rather than prescribe a specific architecture of policy instruments, the four guarantees set minimum standards with respect to the access, scope and level of income security and health care in national social protection systems. While not all countries will be able to establish all components for the whole population immediately, the SPF provides a framework to plan a progressive implementation in the light of holistic vision of the social protection system.

The global SPF initiative has received backing at the international level from such agencies as the Group of Twenty (G20), the Association of Southeast Asian Nations (ASEAN), and the UN Committee on Economic, Social and Cultural Rights (CESCR). The 2030 Agenda for Sustainable Development calls for ending poverty in all its manifestations for all (goal 1) and to establish nationally appropriate social protection systems (target 1.3).

## About this report

This report presents an assessment, with policy recommendations, regarding social protection extension developed through a consultative process with the Drafting Committee's technical-level Secretariat, other government agencies, UN agencies, development partners and civil society.

The Secretariat met 28–29 April 2015 to collect information on existing social protection provisions and to generate initial recommendations. A series of consultative meetings was held with government agencies, development partners, UN agencies and civil society between April and July 2015. On the basis of these consultations, the ILO developed a list of preliminary recommendations.

The Secretariat reconvened in December 2015 to discuss the preliminary assessment and select several key priority recommendations.





The Secretariat and UN agencies met on 9 June 2016 under the leadership of H.E. Mdm Baykham Khattiya, Vice Minister of Labour and Social Welfare, to review and agree on the assessment, recommendations and policy scenarios contained in this report.

## Policy recommendations

The assessment-based national dialogue exercise generated three types of recommendation (see also table 1):

- additional social protection provisions, which are included in the costing exercise (see chapter 5);
- structural reforms of the social protection system that require additional in-depth studies; and
- improved implementation of existing schemes.

**Table 1. List of recommendations by type and SPF pillar**

	Additional SPF provisions	Structural reforms	Improved operations
 <b>Health</b>	<p>Extend coverage of Health Equity Fund (HEF) and maternal, neonatal, and child health (MNCH) nation-wide.</p> <p>Explore options for extending coverage of the uninsured population, through mandatory health insurance or subsidies aiming to reduce health expenditures.</p>	<p>Increase fiscal allocation for health, and ensure long-term financial sustainability of social health protection (SHP) schemes.</p> <p>Further the integration of HEF, community-based health insurance (CBHI) and MNCH schemes under NHIB; establish NHIB as an independent purchaser.</p>	<p>Review and harmonize HEF targeting criteria.</p> <p>Improve NSSF compliance in the private sector to extend mandatory health insurance coverage.</p>
 <b>Children</b>	<p>Introduce universal or targeted child support grant.</p> <p>Increase block grant level and increase number of scholarships to provide free and equitable access to education.</p> <p>Expand school meals to all schools in disadvantaged districts.</p>	<p>Introduce child grants, create linkages with nutrition and health programmes.</p>	<p>Review and improve nutritional impact of school meals.</p>
 <b>Working Age</b>	<p>Create cash benefits for people who are not insured under NSSF, in particular regarding maternity and disability risks.</p> <p>Assess the feasibility of establishing public works programme to create employment and income-earning opportunities for seasonal and agricultural workers.</p>	<p>Introduce linkages between social protection (such as public works) and livelihood and skills measures.</p>	<p>Improve enforcement of private sector social security enrolment and employer compliance with Labour Law benefits.</p>
 <b>Elderly</b>	<p>Provide universal social pension.</p> <p>Provide non-cash benefits such as health care, housing or clothing.</p>	<p>Ensure long-term sustainability of NSSF pensions.</p>	

## Secretariat choice of priority recommendations

In particular, the Secretariat endorsed the recommendation to extend social protection coverage to the informal and rural economies through the introduction of cash benefits in case of maternity, disability and old age for people who are not covered under the formal economy social security scheme (NSSF). In contrast to the contribution-financed benefits of the NSSF, these new benefits were to be financed from general government revenues. In particular, the Secretariat proposed the following:

- social pension for elderly who do not have NSSF pension coverage; the social pension would guarantee a minimum pension to all elderly above a certain age;
- disability benefit for people with disabilities who are not NSSF members; and
- maternity benefit or birth grant for women outside the formal economy who do not benefit from maternity leave or the birth grant under NSSF; this benefit could be extended to cover young children in the form of a child benefit or family allowance.

Specific policy parameters such as benefit amounts and eligibility age of the social pension had not yet been determined. Further discussion and research was needed to develop a basis for the calculation of benefit amounts, including a mechanism for future adjustments based on indicators such as inflation, average wage increases or GDP growth.

Besides the proposed cash benefits, the Secretariat voiced support for the following priority recommendations:

- **Working age.** Address low NSSF coverage in the private sector and non-compliance of companies with Labour Law benefits (e.g. maternity leave) by investing in and implementing enforcement mechanisms, including the following:
  - conduct of periodical inspections at enterprises registered with the Ministry of Commerce and Industry; and
  - introduction of legal provisions allowing penalties to be levied from non-compliant employers.
- **Health.** Extend free MNCH and free health care nationally to the poor under HEFs in all districts, ensuring a more sustainable and systemic funding mechanism under government responsibility and implementation based on nationally harmonized regulations.

## Next steps

The Drafting Committee for the National Social Protection Strategy are to use this report's assessment and recommendations as a basis for the development of the National Social Protection Strategy, and the report will be made available for discussion at higher levels of the Government.



# Acronyms and abbreviations

ABND	Assessment-based national dialogue on social protection
AEC	ASEAN Economic Community
ANC	antenatal care
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
CBHI	community-based health insurance
CCT	conditional cash transfers
CESCR	Committee on Economic, Social and Cultural Rights (UN)
EGS	Employment guarantee scheme
FAO	Food and Agriculture Organization
FY	fiscal year
G20	Group of Twenty
GDP	gross domestic product
GGHE	general government health expenditure
GIZ	German Agency for International Cooperation
HEF	Health Equity Fund
HSRF	Health Sector Reform Framework
ILO	International Labour Organization
IMF	International Monetary Fund
JSDF	Japan Social Development Fund
LAK	Lao kip (national currency)
Lao PDR	Lao People's Democratic Republic
LECS	Lao Expenditure and Consumption Survey
LFTU	Lao Federation of Trade Unions
LNCCI	Lao National Chamber of Commerce and Industry
LONG	Livelihood Opportunities and Nutritional Gains
LSB	Lao Statistics Bureau
MCH	maternal and child health
MDG	Millennium Development Goals
MNCH	maternal, neonatal, and child health
MOAF	Ministry of Agriculture and Forestry
MOES	Ministry of Education and Sports
MOI	Ministry of the Interior
MOF	Ministry of Finance
MOH	Ministry of Health
MOLSW	Ministry of Labour and Social Welfare
MPI	Ministry of Planning and Investment
NCRDPE	National Committee for Rural Development and Poverty Eradication
NERI	National Economic Research Institute



NGO	non-governmental organization
NHI	National Health Insurance
NHIB	National Health Insurance Bureau
NSEDP	National Socio-Economic Development Plan
NSMP	National School Meal Programme
NSSF	National Social Security Fund
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
OOP	out of pocket (spending)
PEP	Public Employment Programme
PPP	purchasing power parity
PRF	Poverty Reduction Fund
RAP	Rapid Assessment Protocol
SASS	State Authority for Social Security
SDC	Swiss Agency for Development and Cooperation
SHG	self-help group
SDG	Sustainable Development Goal
SHP	social health protection
SIDA	Swedish International Development Cooperation Agency
SPF	social protection floor
SRC	Swiss Red Cross
SSO	Social Security Organization
THE	total health expenditure
TVET	technical and vocational education and training
UNAIDS	Joint United Nations Programme on HIV/AIDS
USDA	United States Department of Agriculture
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UXO	unexploded ordnance
VELA	Vocational Education in Lao PDR
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization
WPP	World Population Prospects



# 1. Background

The extension of social protection for all people in society is a crucial policy instrument to promote inclusive development, to reduce poverty and to protect vulnerable groups. Building a national social protection floor (SPF) is of particular importance in Lao PDR to protect the most vulnerable, develop better human capital and achieve more inclusive economic growth. As the country liberalizes its economy and strives toward greater regional economic integration within the ASEAN Economic Community and graduation from least developed country status, social protection becomes even more relevant. Much of the rapid economic growth in past years has been concentrated in the formal urban economy, which employs something less than 30 per cent of the workforce, while enjoying the best access to formal social protection schemes.

The 8th National Socio-Economic Development Plan (NSED) for 2016–20 sets the priority of ensuring an inclusive economic growth that benefits all members of society. Inclusiveness must be an integral part of growth, if the inequality gap and poverty are to be further reduced. With rising income inequality, ensuring that the benefits of increasing prosperity are shared by all remains a challenge. Incomes among the rich are growing faster in relative terms than those of the poor, and inequality has increased over the past 20 years, both at the national level and within rural and urban areas. While fewer people overall live in poverty, some regions and some ethnic and socio-demographic groups have not benefited as much from this positive trend. This especially concerns ethnic groups in remote mountainous regions, as well as households with children and elderly people.

At the same time, continued economic growth means that the Government's fiscal capacity is expected to improve over the medium to long term, enabling a gradual creation and expansion of social welfare programmes for the most vulnerable groups. Providing social welfare transfers would have a high potential impact on poverty and inequality, especially in rural areas.<sup>3</sup>

International and regional agreements provide a framework for the extension of social protection to all, especially the Universal Declaration of Human Rights; the International Covenant on Economic, Social and Cultural Rights; ILO Recommendation No. 202 on Social Protection Floors; and the ASEAN Declaration on Strengthening Social Protection adopted at the 23rd ASEAN Summit in 2013. The ASEAN Declaration calls on all Member States to work towards the progressive extension of coverage, quality and equitability of the national social protection system. The Declaration also acknowledges that everyone, especially those who are at risk, including the poor, persons with disabilities, older people, children and other vulnerable groups, is entitled to have equitable access to social protection that is both a basic human right and an investment in people that should be supported by adequate resources. The Declaration further confirms that social protection is a cross-cutting issue, hence its planning, programming and implementation requires coordinated, inclusive and participatory approaches with the involvement of Government, development partners, civil society and other stakeholders.

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<sup>3</sup> P. Kyophilavong: "Impact of cash transfer on poverty and income distribution", in S. Oum; T.L. Giang; V. Sann; P. Kyophilavong (eds) *Impacts of conditional cash transfers on growth, income distribution and poverty in selected ASEAN countries*. ERIA Research Project Report 2010–13 (Jakarta, ERIA, 2011). A cash transfer programme in Lao PDR, targeting poor households with children, would potentially reduce the poverty rate by an estimated 3 to 10 percentage points in rural areas, and the Gini coefficient by between 1 and 3 points, assuming a benefit level of between 5–15 per cent of the mean per capita income.

Furthermore, the concept of SPFs has been officially incorporated in the new global development agenda. The UN Sustainable Development Goals recognize the importance of SPFs for poverty reduction (target 1.3: implementation of “nationally appropriate social protection systems and measures for all, including floors...”) and for reduction of inequality (target 10.4: adopting policies, “especially fiscal, wage and social protection policies, and progressively achieve greater equality”).

## 1.1 Social protection policy: The Lao PDR context

The resolution of the 9th Congress of the Lao People’s Revolutionary Party in 2011 to translate international and regional agreements into effective policy are supported in the resolution of the 9th Congress of the Lao People’s Revolutionary Party in 2011, which provided a directive to “harmonize the development of the economic sector with the development of the social and cultural sectors to ensure a progressive improvement in livelihood of people of all ethnic groups and to ensure sustainable development”.

In 2013, the National Assembly endorsed a new Social Security Law that aims to harmonize existing contributory social security schemes for the private and the public sectors, and which for the first time allows individuals outside the formal economy to become voluntarily contributing members, providing access to health care along with benefits in disability, sickness, maternity and old age.

Other measures to extend social protection have focused on providing more affordable access to health care, including a 2012 policy of free access to maternal, neonatal and child health care; the introduction of health equity funds aiming to provide free access to health care for the poor; and the adoption of a National Health Insurance (NHI) decree that aims to progressively harmonize existing social health protection systems and, in the long term, extend health care coverage to all.

However, a large part of the Lao PDR population still lacks access to adequate protection from a variety of social and economic risks. This is especially the case for people outside the formal economy and in poverty who are unable to contribute to formal social security, as well as for children, people with disabilities and the elderly. The Rural Development and Poverty Eradication Plan for 2011–15 recognized the need to provide social welfare benefits for the most vulnerable people who are unable to earn sufficient income or livelihoods. The goal is to guarantee basic income security to the poorest to achieve more equitable socio-economic development.

In this context, the Government of Lao PDR is considering the development of a national social protection strategy, setting out policies for the progressive implementation of a more comprehensive and effective system of social security and social welfare.

## 1.2 Economic and social background and fiscal position<sup>4</sup>

### Demographic situation

While experiencing a general stagnation of overall demographic dependency, in the decades to come Asia will face a fairly dramatic structural shift between old-age dependency and child dependency. The overall Asian old-age dependency rate<sup>5</sup> is expected to increase from 10.1 per cent in 2010 to

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<sup>4</sup> This section partially builds on relevant sections from M. Cichon; D. Cichon: *The Financing of social protection for informal workers in Asia: Challenges and opportunities* (unpublished, ADB, 2015).

<sup>5</sup> The youth dependency rate is calculated as the ratio of the number of children aged 0 to 14 years, and the number of persons of adult age aged 15 to 64 years. The old-age dependency rate is the ratio of the number of persons over the age of 65 to the number of people of active age (age bracket 15 to 64). The total dependency rate is the sum of the two rates.

27.0 per cent in 2050, and the child dependency rate is expected to decline from 37.6 to 27.7 per cent. These overall figures are driven by developments in both populous and relatively old and fast-ageing neighbours such as the People's Republic of China, the Republic of Indonesia, the Republic of Korea, and the Kingdom of Thailand.

Lao PDR to some extent presents an exception. Due to a strong fall in the child dependency ratio, the overall dependency rate of its small population of about 6.5 million people is expected to decline until 2050, and then, due to an increase in old age dependency, rise to levels only slightly above the present level until 2100. This opens a “demographic window of opportunity” for social policy planners in Laos. The following table provides the respective data for Laos. The overall dependency rate is a crude measure of the demographic stress of social transfer systems, since the total number of children and elderly provides a rough proxy of the number of transfer recipients in a fully developed social protection system.<sup>6</sup> A new overall social protection system in Laos is unlikely to face major demographic risks during the next three decades. Even until 2100, the demographic risks appear to remain manageable. Compared to many bigger Asian neighbours this is a comfortable position.

**Table 2. Expected demographic development in LAO PDR, 2010–2100**

Dependency ratio	2010	2030	2050	2100
Lao PDR old age	6.3	8.4	15.3	49.2
Lao PDR child	61.8	43.5	30.7	26.3
Lao PDR total	68.1	51.8	46.0	75.5

Source: ILO: *World social protection report 2014/15* (WSPR 14).

## Economic background

Most countries in Asia showed solid long-term growth in recent decades. Despite the global financial crisis, real average per capita growth was higher than 3 per cent per annum in most Asian developing countries (with China, at more than 9 per cent, experiencing the highest average long-term real growth rate). In Lao PDR, the real GDP per capita has more than doubled since the year 2000, and real GDP per capita recorded a solid and resilient growth of 5.8 per cent between 2004 and 2014, even throughout the difficult period of the global financial crisis.

## Labour force

Total employment grew by about 2.9 per cent per annum between 2004 and 2014, and the unemployment rate dropped between 2004 and 2013 by about 1 percentage point, from 2.4 per cent to about 1.4 per cent. The downside is that vulnerable employment remained high, decreasing only marginally (from about 89 per cent of total employment in the year 2000 to 85 per cent in 2013). Vulnerable employment refers to employment outside the formal economy, and is defined as the sum of “own account workers” and “contributing family workers”.<sup>7</sup> High informality in the

<sup>6</sup> This leaves out of consideration the number of transfer dependents of active age and the particularities of the health system. Likewise, the different protection needs of the elderly vs. the young is left out of consideration when using the overall dependency rate as a proxy for the demographic and financial stress. However, if we assume that the young only require half the transfers of the elderly, and adjust the overall dependency rate accordingly, then the overall adjusted dependency rate between 2010 and 2050 is still expected to decline from about 37 per cent to 31 per cent.

<sup>7</sup> Definition according to Millennium Development Goals, indicator 1.7

labour market presents the biggest administrative and financial challenge for the extension of social security coverage everywhere, as workers in the informal economy have irregular and unrecorded income and cannot be easily taxed or obliged to pay contributions.

Agricultural activities dominate the labour market, with 72.2 per cent of the labour force active primarily in agriculture in 2011/12, compared to 8.1 per cent in industry and 15.9 per cent in services.<sup>8</sup> Most rural households face highly seasonal and irregular work and income, with most households active in both farm and non-farm work during the course of the year. Although 72 per cent of people aged 20–60 years perform farm work for at least one month per year, only 10 per cent in this age group are active in farm work year around.<sup>9</sup> Although many households have spare seasonal labour capacity, a severe lack of employment opportunities in rural areas leaves them vulnerable to seasonal food and income insecurity. About 20 per cent of the labour force lack work at some point during the course of the year, for an average of 3.7 months.

Closer regional economic integration under the ASEAN Economic Community (AEC) is expected to accelerate structural change in the economy toward higher-skilled employment.<sup>10</sup> With a projected decline of the labour force share in agriculture and low-skilled work, less skilled workers in vulnerable and informal employment will need to be protected by adequate social protection measures.

### Poverty and inequality<sup>11</sup>

The Lao PDR ranks 141th in the Human Development Index of 2014<sup>12</sup>, which is similar to such Asian neighbours as the People's Republic of Bangladesh, the Kingdom of Cambodia, the Republic of the Union of Myanmar, the People's Democratic Republic of Nepal and the Islamic Republic of Pakistan.

The level of inequality in developing Asia is relatively low by international standards. The Gini coefficient currently stands at around 0.35 in developing Asia. But countries with relatively high levels of GDP per capita have Gini values that range above 0.4 (e.g. China, Indonesia and the Republic of the Philippines). The Gini coefficient for Lao PDR is in the order of 0.36, having increased steadily from 0.32 in 2003.

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<sup>8</sup> Lao Statistics Bureau; Ministry of Labour and Social Welfare; and ILO: *Labour force and child labour survey 2011–12* (2012).

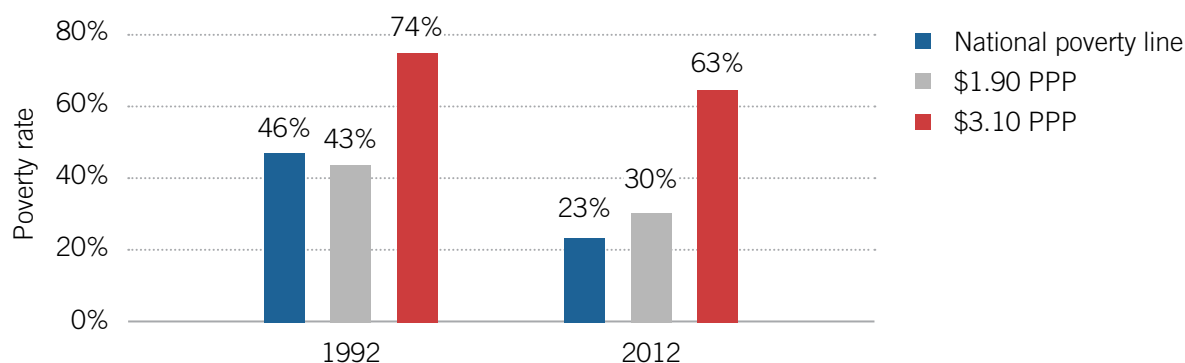
<sup>9</sup> Authors' calculations based on *Lao expenditure and consumption survey 2012–13* (LECS 5) data.

<sup>10</sup> Asian Development Bank (ADB) and ILO: *ASEAN community 2015 – Managing integration for better jobs and shared prosperity* (2014), <https://www.adb.org/sites/default/files/publication/42818/asean-community-2015-managing-integration.pdf> [accessed 16 Aug. 2017].

<sup>11</sup> Lao Statistics Bureau; World Bank: *Poverty profile in Lao PDR 2012–2013: Poverty report for the Lao expenditure and consumption survey 2012–2013* (LECS V) 2014. <http://documents.worldbank.org/curated/en/868521467998508506/pdf/100120-WP-P146141-PUBLIC-Box393225B-Poverty-Profile-in-Lao-PDR-publication-version-12-19-14.pdf> [accessed 21 Aug. 2017].

<sup>12</sup> UNDP: *Human development report 2016: Briefing note for countries on the 2016 human development report – Lao People's Democratic Republic*, ([http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/LAO.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/LAO.pdf)) [accessed 16 Aug. 2017].

**Figure 1. Vulnerability to poverty remains high in Lao PDR**



Poverty and rising income inequality in Lao PDR, just as in all of developing Asia, remain the major challenge for national social policies. National poverty levels in developing Asia remain high – although they are not as extreme as in other developing regions. The poverty headcount at the national poverty line (circa 2012–13) stood at 23.2 per cent of the total population. Over the last two decades the national poverty rate has fallen consistently to half its level of 46 per cent in 1992/93. However, when measured against the international poverty line of US\$3.10 per day at purchasing power parity (PPP), the poverty headcount increases to 63.3 per cent of the population (2012). This indicates that most of the population remains highly vulnerable to shocks and is at risk of falling into poverty.

While poverty has decreased in the country as a whole, it is important to note significant variations in levels of poverty and rates of progress across regions and socio-economic groups. Poverty in some provinces ranges between 40 and 50 per cent (Saravane, Bokeo and Sekong), while the rate in Vientiane Capital is estimated at just 5.9 per cent. Poverty is largely rural, with poverty rates almost three times as prevalent in rural as they are in urban areas (28.6 per cent and 10.0 per cent, respectively). And this gap has been growing, as poverty declines more slowly in rural than in urban areas. An estimated 87.6 per cent of the poor now live in rural areas. Consequently, inequality between rural and urban areas is rising.

The main determinants of household poverty include large household size, a high dependency ratio, lack of education, lack of non-farm work, and geographic remoteness leading to a lack of access to essential infrastructure and health services.<sup>13</sup> Poverty is especially prevalent in households with a high dependency ratio, suggesting that people outside of working age – children and the elderly – are especially at risk of being poor. Establishing SPF provisions to protect these groups could play an important role in reducing overall household poverty.

Many non-poor households also continue to face high vulnerability – as evidenced by the significant number of non-poor households falling back into poverty. According to household survey data,<sup>14</sup> 40 per cent of households identified as poor in 2013 had been non-poor in 2008. Between 2008 and 2013, poverty actually increased in three provinces (Saravane, Bokeo and Champasack) that had previously seen large declines in poverty.

<sup>13</sup> M. Andersson; A. Engvall; A. Kokko: *Determinants of poverty in Lao PDR*, Country Economic Report 2005:10 (Stockholm, Swedish International Development Cooperation Agency [SIDA]), [http://www.sida.se/contentassets/94f06ef43b464894adf657762cfbfed4/200510-determinants-of-poverty-in-lao-pdr\\_1372.pdf](http://www.sida.se/contentassets/94f06ef43b464894adf657762cfbfed4/200510-determinants-of-poverty-in-lao-pdr_1372.pdf) [accessed 25 Nov. 2016].

<sup>14</sup> Government of Lao PDR: *Lao expenditure and consumption survey 2007–08*, LECS 4 (Vientiane, 2009); *Lao expenditure and consumption survey 2012–13*, LECS 5 (Vientiane, 2012).

**Table 3. Poverty headcount rate by household characteristics**

		2003	2008	2013	Change 2008–13
<b>Location</b>	Urban	19.7	17.4	10.0	-7.3
	Rural	37.6	31.7	28.6	-3.1
<b>Primary employment (head of household)</b>	Self-employed, agriculture	38.8	32.1	29.1	-3.0
	Self-employed, non-farm	20.1	15.4	11.3	-4.1
	Paid worker	16.5	15.1	9.6	-5.5
<b>Altitude</b>	Lowland	28.6	20.4	18.8	-1.6
	Midland	36.7	29.1	22.0	-7.1
	Upland	43.4	42.6	33.9	-8.7
<b>Highest completed level of education (head of household)</b>	University	12	9	4	-5
	Vocational	8	13	6	-7
	Secondary	17	12	7	-5
	Primary	31	25	21	-4
	Some primary	40	36	32	-4
	No formal education	47	46	42	-4
	Lao PDR	33.5	27.6	23.2	-4.3
	Lao PDR at international \$1.25 PPP/day	41.4	34.9	28.8	-6.1

Source: Lao Statistics Bureau and World Bank (2014).

## Nutrition and education

Many rural farming households are highly dependent on subsistence farming, and continue to face temporary or seasonal food insecurity. Infants and children are especially vulnerable to malnutrition, as reflected in prevalent anaemia (over 60 per cent), stunted growth (44 per cent), and being underweight (27 per cent) in children younger than five years. Rates in poor families, rural areas and ethnic groups are significantly higher than the national average.<sup>15</sup>

In education, in recent years, there has been an overall increase in net enrolment at both primary and secondary school levels with a small gender gap. However, a large gap remains between the poor and non-poor. In 2012/13, net enrolment in primary school among the poor was about 75.3 per cent, compared to 89.5 per cent among the non-poor.<sup>16</sup> An even larger gap exists at the lower secondary level, with about 28.2 per cent of children aged between 11 and 15 and living in poor households enrolled, compared to 56.6 per cent of children in the same age group in non-poor households.

<sup>15</sup> National Commission for Mothers and Children; Ministry of Planning and Investment; UNICEF: *Child well-being and disparities in Lao PDR* (2012).

<sup>16</sup> Lao Statistics Bureau; World Bank: *Poverty profile in Lao PDR 2012–2013* (2014) based on LECS V, op. cit.



## Social expenditure, fiscal position and the social protection financing challenge

According to the ILO *World social protection report*,<sup>17</sup> public social expenditure as a share of gross domestic product (GDP) in all of Asia was in the order of 5.3 per cent of GDP. However, expenditure levels showed a wide range across countries, which reflected the diverse social and economic histories of the countries in the region. The Republic of Uzbekistan had a social expenditure of more than 10 per cent; expenditure in the Republic of Armenia, China, Korea, the Kyrgyz Republic and Thailand ranged between 5 and 10 per cent, while many other countries had a total public social expenditure of less than 5 per cent of GDP. The ILO estimate for Lao PDR stands at 1.7 per cent of GDP (the respective ADB estimate is 0.9 per cent), on a par with Cambodia and the Philippines, but much lower than the expenditure levels of the Socialist Republic of Viet Nam (6.3 per cent of GDP).

The low public social expenditure level is somewhat out of balance with the high relative level of government revenues. For example, compared to many of its neighbours, with its relatively high level of total government revenues (24.1 per cent of GDP in 2014), Lao PDR qualifies as a high-revenue country. Government revenues have recently come under severe pressure, mainly due to lower mining revenues and a decrease in foreign grants, with total revenues according to World Bank figures, declining from the peak of 24.1 per cent of GDP in 2014 to an estimated 20.1 per cent of GDP in fiscal year (FY) 2016. The Government has reacted by freezing public sector wages and curbing investment spending. Given the present expenditure composition, the fiscal space for social expenditure is limited, since a large part of the budget is currently allocated towards capital spending (estimated, as of 2016, as 30 per cent of expenditure), public sector wages (35.0 per cent) and interest payments (6 per cent).

Over the long term, given past experience in neighbouring countries, the share of capital spending can be expected to decrease as GDP continues to grow. Lower capital spending should shift resources towards additional social expenditure over the coming decade.

At the same time, several possible impediments could hinder the opening up of additional fiscal space. Public sector salary increases and strong hiring could take up significant additional resources. Furthermore, increased spending on debt servicing of government loans (interest payments and amortization) could threaten to take up much of this new fiscal space. According to World Bank estimates, with current budget and policy trends, the expenditure on debt servicing could increase to 2–3 per cent of GDP over the coming decade.

Freeing fiscal space for additional social protection expenditure might thus require a thorough review and, perhaps, a re-prioritization of present government expenditure plus the exploration of additional revenues. The potential exists for substantial additional revenues from a broadening of the tax base and improvements in customs enforcement, tax administration and compliance.<sup>18</sup>

SPF policies in Lao PDR might face a financing challenge of such magnitude that even a modest package for basic SPF policy, including social health protection (see chapter 5, below), would require estimated additional resources of 1.8 per cent of GDP.

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<sup>17</sup> ILO: *World social protection report 2014/15 – Building economic recovery and inclusive development and social justice* (Geneva, 2014), [http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf) [accessed 25 Nov. 2016].

<sup>18</sup> International Monetary Fund (IMF): *Staff report for the 2014 Article IV Consultation Lao PDR*, IMF Country Report No. 15/45 (Washington, DC, 2014), <https://www.imf.org/external/pubs/ft/scr/2015/cr1545.pdf> [accessed 22 Aug. 2017].



Given the fiscal challenges, initially it will be crucial to focus on only a few selected priority social protection policies for large-scale implementation before expanding to a larger number of schemes. At the same time, extending the contributory social security system has some potential for raising additional revenue and relieving fiscal pressure on tax-funded schemes. Developing an intelligent timeline to complete a basic social protection system will prove quite challenging.

Additional discussions are needed, especially with the social health protection package costs, and recommendations need to be carefully considered. The scope of the ABND process in this topic area, it was recognized, did not offer the necessary depth, in part because a parallel discussion was taking place in a different forum, and therefore these proposals also needed to take that process into consideration.

**Table 4. Fiscal indicators for Lao PDR**

(in % of FY GDP)	2013	2014	2015	2016
<b>Revenues</b>	23.0	24.1	23.0	20.1
<b>Grants</b>	5.7	5.6	4.6	2.4
<b>Domestic revenue</b>	17.4	18.5	18.4	17.7
<b>Domestic non-resource revenue</b>	13.7	15.5	15.7	15.5
<b>Mining</b>	2.7	1.9	1.6	1.0
<b>Power/hydro</b>	1.0	1.1	1.1	1.2
<b>Expenditure</b>	29.1	28.0	26.6	25.2
<b>Current expenditure</b>	16.3	14.7	15.0	15.9
<b>Wages</b>	10.5	9.3	8.7	
<b>Non-wage recurrent</b>	4.6	4.4	5.2	
<b>Interest</b>	1.2	1.0	1.1	1.4
<b>Capital expenditure</b>	12.2	10.4	9.8	7.6
<b>Other expenditure</b>	0.6	2.9	1.8	1.7
<b>Deficit</b>	6%	3.8%	3.7%	5.1%

Source: *World Bank Lao economic monitor*, May 2016.

### 1.3 Social protection floors (SPF)

The SPF framework, the ABND's conceptual basis, presents a tool to frame social security, social welfare and poverty reduction programmes, while helping to guide identification of the measures needed to establish a more comprehensive and rights-based national social protection system.






The SPF concept originated with a joint UN Social Protection Floor initiative in the wake of the 2008 financial and economic crisis. The initiative supports countries in planning and implementing social protection schemes and essential social services. Since this objective transcends the mandate of

any single body or agency, the initiative built a global coalition of UN agencies<sup>19</sup> as well as the IMF, the World Bank, development partners and leading NGOs.

The UN Social Protection Floor initiative has given rise to ILO Recommendation No. 202 on National Floors of Social Protection, adopted by the International Labour Conference at its 101st session in 2012. Recommendation No. 202 provides guiding principles in building nationally defined SPFs, and reaffirms that SPFs are economically affordable and can be introduced, completed and maintained everywhere in accordance with national circumstances.

In September 2015, UN member States committed to achieving 17 Sustainable Development Goals (SDGs) by 2030. Five of these goals refer to SPFs: SDG 1 on ending poverty, SDG 3 on ensuring healthy lives, SDG 5 on achieving gender equality, SDG 8 on promoting decent work, and SDG 10 on reducing inequality.

**Figure 2. Social protection floors and the SDGs**

	<b>Target 1.3</b> - Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
	<b>Target 3.8</b> - Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	<b>Target 5.4</b> - Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate
	<b>Target 8.5</b> - By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
	<b>Target 10.4</b> - Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

SPFs are nationally defined sets of legal entitlements that enable and empower all members of society, assuring them access to a minimum of goods and services at all times through the following means:

- transfers in kind, such as essential services, referring to the provision of, and access to, services such as health, education, adequate nutrition, water and sanitation; and/or
- transfers in cash, referring to cash benefits to provide basic income security in situations of reduced income-earning capacity.

<sup>19</sup> Including the ILO, the WHO, the Food and Agriculture Organization (FAO), the Office of the High Commissioner for Human Rights (OHCHR), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Department of Economic and Social Affairs (UNDESA), the UNDP, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Population Fund (UNFPA), the United Nations Human Settlements Programme (UN-HABITAT), the United Nations High Commissioner for Refugees (UNHCR), UNICEF, the United Nations Office on Drugs and Crime (UNODC), the UN Regional Commissions, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the World Food Programme (WFP) and the World Meteorological Organization (WMO).

More specifically, a national SPF consists of four guarantees<sup>20</sup> to be provided to all members of society:

- access to a nationally defined set of goods and services, comprising essential health care, including maternity care, that meets the criteria of availability accessibility, acceptability and quality; and
- basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, health care and any other necessary goods and services;
- basic income security, at least at a nationally defined minimum level, for persons of active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- basic income security, at least at a nationally defined minimum level, for older persons.

By calling for both demand- and supply-side measures (transfers and services), the SPF takes a holistic approach to social protection. The SPF calls for access to a minimum set of goods and services for all age groups, but extends special attention to marginalized and vulnerable groups such as ethnic groups and people with disabilities. In parallel, guided by ILO social security standards, countries should progressively ensure higher levels of social security to as many people as possible.

Defining the components of the floor as guarantees creates the flexibility that makes the SPF concept compatible with all possible national social protection systems. Rather than prescribe a specific architecture of national social protection systems, the four guarantees – i.e. income security during childhood, adulthood and old age as well as access to essential health care throughout the life cycle – set minimum performance or outcome standards with respect to the access, scope, and level of income security and health care in national social protection systems. Not all countries will be able to establish all components for the whole population immediately, but the SPF provides a framework for planning a progressive implementation that ensures a holistic vision of the social protection system, exploiting synergies and complementarities between different components.

The SPF does not present a “one size fits all” approach. Each country defines its own national benefits levels as well as the methods of providing these benefits (e.g. social security, targeted social welfare, universal schemes, provision of services, or a combination of these).

The SPF also serves as a tool for gender empowerment. Globally, women are disproportionately represented among the poor and the vulnerable. They face many legal and social constraints that limit their access to the labour market, productive assets, better-remunerated work, and equal remuneration with male counterparts. Women tend to be confined to more casual, insecure, and hazardous forms of work and self-employment, particularly in the informal economy, with no access or only limited access to social protection. The SPF, which aims to extend basic social protection to those who are currently excluded, offers great potential to redress existing gender imbalances. In societies where women are expected to take on caring roles, social transfers are also found to be particularly important support mechanisms.

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<sup>20</sup> See ILO: Social Protection Floors Recommendation, 2012, (No. 202), para. 5.

## 1.4 Social protection policies worldwide

A range of social protection policies have been successfully implemented in many parts of the world, including in many developing countries. Although the mix varies by country, common interventions may be categorized in the following manner:

- **Contributory social security and social health insurance.** In some schemes, contributions made by protected persons directly determine entitlements to benefit (acquired rights). The most common form of contributory social security schemes is a statutory social insurance scheme. In the case of social insurance schemes for those in waged or salaried employment, contributions are usually paid by both employees and employers. Contributory schemes can be wholly financed through contributions, but often are partially financed from taxation or other sources. This might be accomplished through a subsidy to cover the deficit, or through a general subsidy supplanting contributions altogether, or by subsidizing only specific groups of contributors or beneficiaries.<sup>21</sup>
- **Non-contributory schemes.** Some schemes do not require direct financial contributions from beneficiaries or their employers as a condition of entitlement to receive the relevant benefit. Non-contributory schemes cover a broad range of approaches, including universal schemes such as national health services; categorical schemes for certain groups of the population (e.g. universal child benefits for children below a certain age or universal old-age pensions for persons above a certain age); and means-tested (target) schemes such as social assistance schemes. Non-contributory schemes are usually financed through taxes or other state revenues or, in certain cases, through external grants or loans.<sup>22</sup>
- **Public Employment Programmes (PEPs).** PEPs are government programmes offering employment opportunities to certain categories of persons who are unable to find other employment. Among a broad variety of PEPs, two versions stand out:
  - Public works programmes may offer cash payments or food for work. This more common and traditional form is often adopted as a temporary response to specific shocks and crises, but may also have a longer-term horizon.
  - Employment guarantee schemes (EGSs) refer to long-term rights-based programmes in which some level of entitlement to work is provided.<sup>23</sup>

Usually these schemes provide temporary employment at low wage-rates, mainly in rural areas on labour-intensive projects (e.g. road construction and maintenance, infrastructure, reforestation). They provide crucial income support for people who are able to work, helping them to cope with lack of income or food during low seasons, and they can be linked with skills training. Employment programmes can support the construction or maintenance of essential infrastructure in poor regions.

The following figure presents a variety of social protection terms, brief accounts of contributory schemes and non-contributory schemes, and the idea that a SPF that can be ensured by a combination of relevant policy instruments.

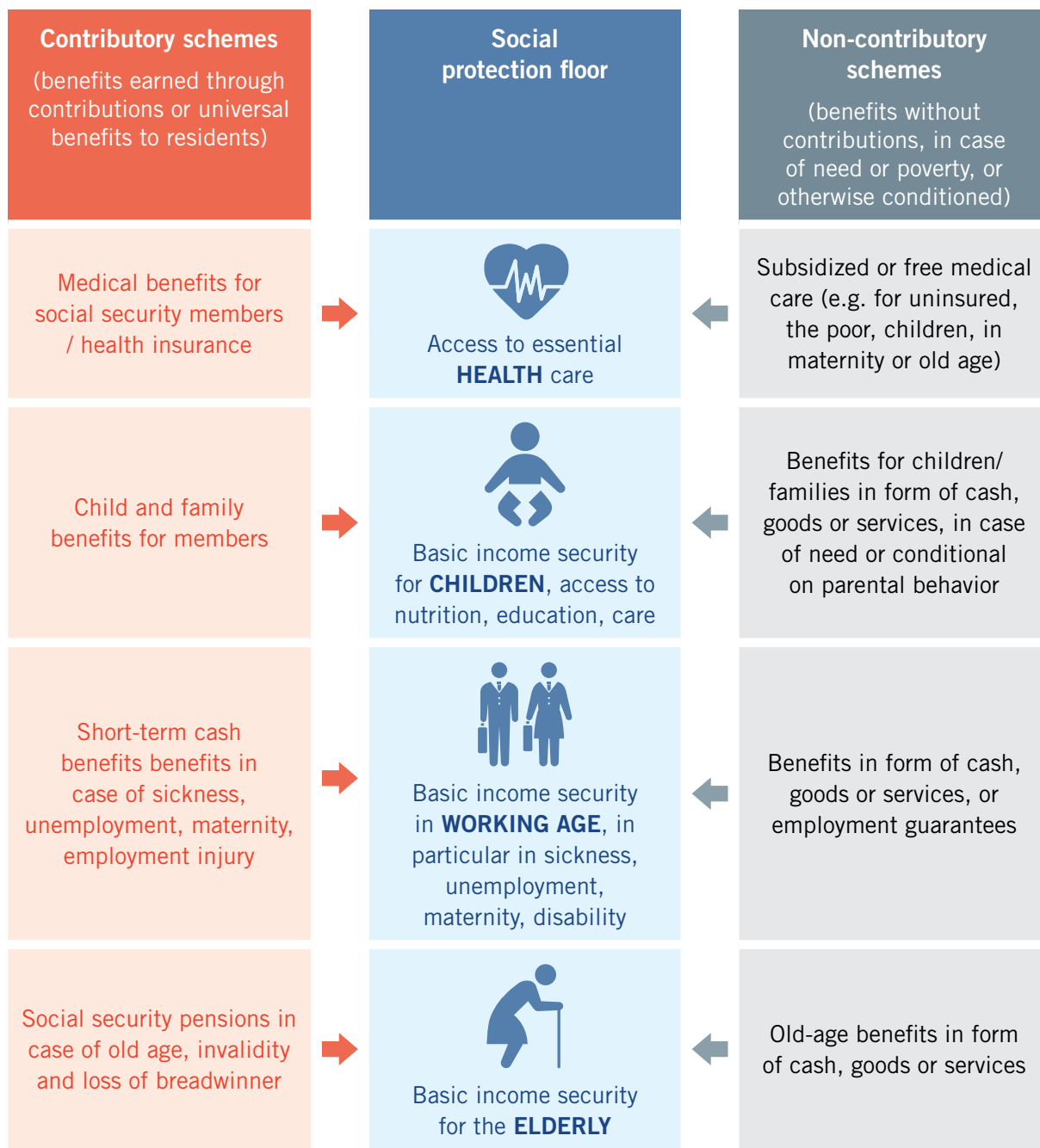
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<sup>21</sup> ILO: *World social protection report 2014/15: Building economic recovery, inclusive development and social justice* (Geneva, 2014), [http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf) [accessed 22 Aug. 2017]

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

**Figure 3. The four SPF guarantees and common social protection policies**





## 2. ABND process in Lao PDR

The Lao ABND process was launched at a workshop on 26 April 2013. One outcome of this workshop was a Drafting Committee for the National Social Protection Strategy consisting of senior representatives of key line ministries and government agencies. The Drafting Committee, chaired by H.E. Mdm Baykham Khattiya, Vice Minister of Labour and Social Welfare, was appointed on 9 September 2013 to oversee the ABND initiative.

### **STEP 1 – Assessment of social protection programmes and formulation of recommendations**

A structured assessment was conducted through consultations with relevant stakeholders, including line ministries, UN agencies, development partners, tripartite partners and civil society. For each of the four SPF guarantees, the assessment describes an inventory of existing social protection programmes, identifies policy gaps and implementation issues, and provides recommendations for the design and implementation of further social protection provisions with the aim of guaranteeing a SPF for all the population.

As part of this step, the Drafting Committee's technical-level Secretariat met on 28–29 April 2015 to collect information on existing social protection provisions and to jointly define initial recommendations. A series of consultative meetings was held with government agencies, development partners, UN agencies and civil society between April and July 2015. In the light of these consultations, the ILO developed a list of preliminary recommendations. The Secretariat reconvened in December 2015 to discuss the preliminary assessment and preliminary list of recommendations. During this meeting, the Secretariat selected several key priority recommendations.

### **STEP 2 – Costing of priority policy recommendations**

Once consensus on priority policy recommendations was reached, a draft report was produced. It included a set of potential policy scenarios, developed in consultation with stakeholders, for extending a SPF. Analysis of these policy scenarios provided potential costs until 2030, along with a brief assessment of fiscal space. The Secretariat and UN agencies held a meeting on 9 June 2016 under the leadership of H.E. Mdm Baykham Khattiya, Vice Minister of Labour and Social Welfare, to review and agree on the assessment, recommendations and policy scenarios contained in the draft report.

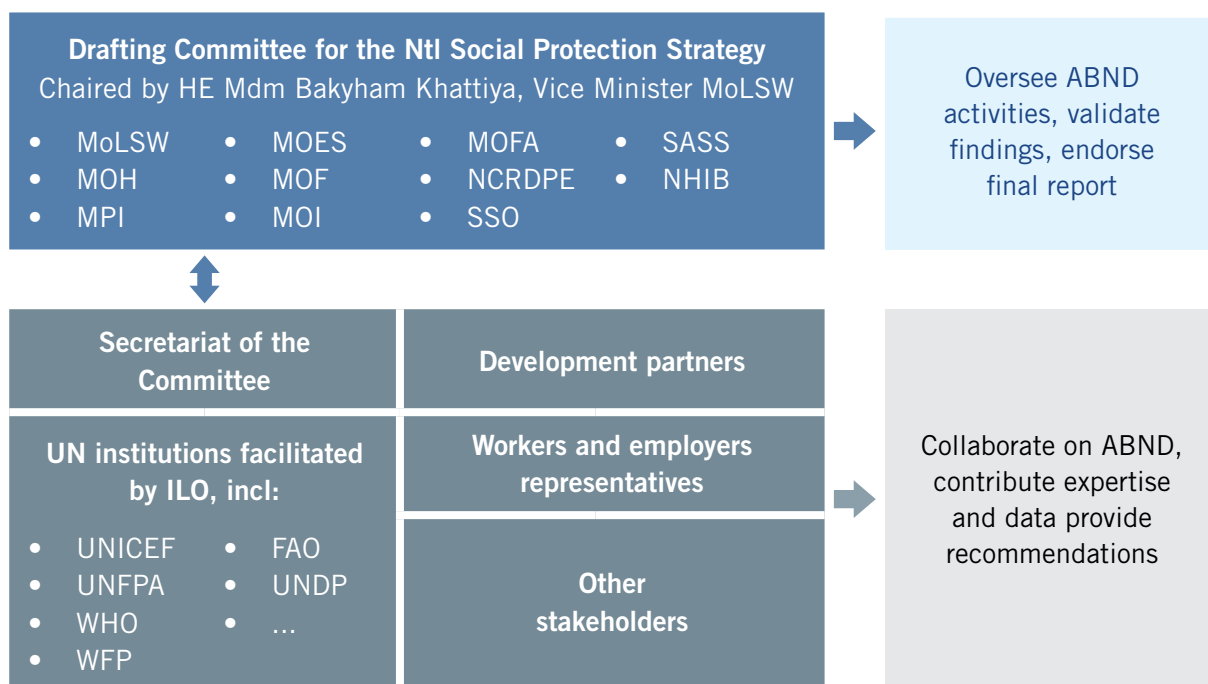
### **STEP 3 – Finalization of ABND report for endorsement**

The assessment and recommendations contained in the final report will serve as a basis for the work of the Drafting Committee for the National Social Protection Strategy in developing the National Social Protection Strategy, and will be made available for discussion at higher levels of Government.

## 2.1 Roles and responsibilities

The ABND was a participatory exercise involving various government agencies, UN agencies, workers' and employers' organizations, and development partners. It involved concerted efforts by all stakeholders in their respective areas of work, ensuring the optimal use of their respective expertise in achieving a broad consensus on policy priorities for the future.

**Figure 4. Actors and roles in the Lao ABND exercise**



### Roles

- The role of the Drafting Committee for the National Social Protection Strategy was to oversee all ABND activities, including validating the findings, endorsing a final report, and leading the way forward in the implementation of a national SPF.
- The Drafting Committee's Secretariat consisted of technical specialists from relevant ministries and concerned sectors who, together with UN agencies, development partners and other stakeholders, achieved the following: (1) contributed expertise and information for assessing the current social protection system; (2) identified policy gaps and implementation issues; and (3) developed policy scenarios and recommendations in line with government strategy.

### Responsibilities

- The MOLSW took responsibility for leading and facilitating the ABND process. The ILO provided support in organizing dialogue workshops; costing policy scenarios; and synthesizing consensus findings in a final report for endorsement by the Government.
- The Drafting Committee's Secretariat was responsible for data collection; analysis of policy gaps and implementation issues; identifying recommendations on social protection; and drafting assessment results to present to senior management for endorsement, including preparation of the content and management of consultations.



### 3. Overview of social protection in Lao PDR

Existing social protection provisions consist mainly of the following:

- contributory social security insurance for formal workers, including health insurance (NSSF);
- social health protection schemes providing voluntary health insurance for the informal economy plus free health care for the poor (HEFs), for those in maternity, and for children younger than five years (MNCH);
- social assistance or social welfare, providing ad-hoc disaster relief and scattered in-kind support to specific vulnerable groups;
- education-related schemes to provide free education, scholarships and school meals;
- poverty reduction and livelihood schemes, such as those of the Poverty Reduction Fund (PRF); and
- small-scale pilots of conditional cash transfers (CCTs) to support education and health outcomes.

It is important to note that these schemes do not yet form part of an integrated strategic approach to social protection, but are planned and implemented by diverse line ministries and agencies, often with donor funding and support.

The formal social security insurance scheme under the National Social Security Fund (NSSF) covers workers for medical benefits; pensions; employment injury; occupational disease and non-work-related disease (including long-term disability); sickness; maternity; and survivor's benefits. These schemes cover most of the public sector and, to a lesser extent, the formal private sector. However, this group only accounts for a small part of the population, as the informal economy continues to make up about 80 per cent of the workforce.

The NSSF provides health coverage to the formal public and private sector, while free health care is provided for the poor (HEF), those in maternity, and for children younger than five years (MNCH). Voluntary community-based health insurance (CBHI) has so far only achieved limited coverage.

Social welfare programmes mainly consist of short-term in-kind assistance for disaster victims and specific vulnerable groups such as victims of trafficking or orphans. Education-related schemes include free education through block grant financing of schools; the National School Meal Programme (NSMP) and scholarship programmes for technical and vocational education and training (TVET) and, to a limited extent, secondary education. The PRF, although not a classical social protection scheme, aims to provide a minimum of access to essential goods and services through community asset creation and livelihood promotion activities.

The current system does not include regular social welfare cash benefits to specified beneficiary categories. But cash benefits are a crucial policy instrument that should be considered and explored by stakeholders and policy-makers in Lao PDR. Introducing cash entitlements to ensure a minimum of income security for those not covered by the contributory schemes could be a crucial step for the development of a comprehensive social protection floor over the coming years.



## 3.1 Social health protection

### Background

According to the SPF framework, achieving a minimum guarantee of health protection requires the provision of affordable health care that “meets the criteria of availability, accessibility, acceptability and quality”. The main barriers to achieving this minimum standard for all residents are a lack of trained medical personnel and lack of advanced treatments and drugs in remote areas; lack of geographic access for remote populations; and financial barriers including exposure to the risk of catastrophic health expenditures, which often leads to increased impoverishment, in particular among the already poor and near poor.

Health service delivery faces great challenges in terms of quality, accessibility and effectiveness, as recognized in the Health Sector Reform Framework (HSRF) 2014–2025. As a result, health outcomes remain weak, and many challenges remain for reaching the Millennium Development Goals (MDG) targets in health. Maternal and child mortality rates are still among the highest in the region. The HSRF identifies the following main causes:

- very low funding for the health sector, especially from domestic sources, that fails to provide the minimum requirements to ensure adequate service provision;
- low human resource capacity of the health workforce; and
- a general lack of capacity in health sector management, planning, implementation, monitoring and evaluation at all levels.

Overall expenditure on health in Lao PDR is very low by comparison with other countries in the region; total health expenditure (THE) was only an estimated 2.8 per cent of GDP in 2011–12, compared to 6.0 per cent in Viet Nam and 7.3 per cent in Cambodia. General government expenditure on health including official development assistance (ODA), for the same year, was only 1.1 per cent of GDP or 4.1 per cent of total government expenditure. According to a 2013 National Assembly decision, at least 9 per cent of government expenditure should be allocated to the health sector. The HSRF sets a target of increasing government health expenditure from domestic sources to 3–4 per cent of GDP by 2025, compared to just 0.5 per cent in 2012.

The low funding level of the public health care system is reflected in understaffing and the lack of availability of services and medication at public health facilities, especially in remote areas. According to household survey data,<sup>24</sup> 8.4 per cent of people with an illness avoid seeking treatment due to lack of geographic access. Lao PDR has among the lowest density of physicians (0.2 per 1,000 population) and nurses (0.9 per 1,000 population) in all of developing Asia.<sup>25</sup>

Out of pocket (OOP) spending makes up almost half of total health expenditure in Lao PDR. Due to the overall low level of health spending, however, and the lack of advanced and expensive services and drugs at the village and district levels, the average per capita amount of OOP spending, at \$15.8 per year, or 1.0 per cent of per capita GDP (2012), is fairly low in absolute terms. At the same time, high fees for hospitalization<sup>26</sup> and expensive treatments, especially in provincial and central

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<sup>24</sup> *Lao expenditure and consumption survey 2012–13* (LECS 5), op cit.

<sup>25</sup> This is about ten times less than the Organisation for Economic Co-operation and Development (OECD) average, and much lower, for example, than Viet Nam's 1.3 physicians per 1,000 population. WHO Global Health Observatory, [www.who.int/gho](http://www.who.int/gho) [accessed 17 Aug. 2017].

<sup>26</sup> The median out-of-pocket fee paid per hospital admission is LAK800,000 (\$97), with 10 per cent of hospital stays costing more than LAK5,000,000, and 1 per cent more than LAK16,000,000 (LECS 5, op. cit.).

hospitals, lead many poor and near-poor households into exposure to catastrophic risk. According to household survey data (LECS 4 and LECS 5), these catastrophic health costs are a direct cause that a large number of near-poor households fall into poverty.

This suggests that, to promote adequate health protection and access to quality care for all, the following measures should be prioritized:

- increase overall funding for the health sector to improve the quality of care and geographic access to health care services;
- extend social health protection schemes to all vulnerable groups, including the poor, children younger than five years, the elderly and pregnant women; and
- expand the coverage of social health protection schemes that protect care-seeking patients from catastrophic health expenditures.

**Table 5. National health accounts FY 2010–11 and 2011–12**

	FY 2010–11			FY 2011–12		
	US\$/capita	% GDP	% THE	US\$/capita	% GDP	% THE
<b>Total health expenditure (THE)</b>	28.7	2.7	100	35.5	2.8	100
<b>Capital expenditure</b>	2.2	0.2	7.6	3.1	0.3	8.7
<b>Current health expenditure (CHE)</b>	26.5	2.4	92.4	32.4	2.6	91.3
<b>Private health exp.</b>	15.3	1.4	53.2	18.7	1.5	52.8
<b>NGOs</b>	1.1	0.1	3.7	1.9	0.2	5.4
<b>Out of pocket (OOP)</b>	13.9	1.2	48.6	15.8	1.3	44.4
<b>Voluntary pre-payment</b>	0.2	0.02	0.9	1.1	0.1	3.0
<b>General government health expenditure (GGHE)</b>	11.2	1.0	39.2	13.7	1.1	38.5
<b>Domestic expenditure</b>	4.7	0.4	16.4	6.3	0.5	17.8
<b>Insurance contributions</b>	0.3	0.03	1.1	0.5	0.04	1.4
<b>External resources</b>	6.2	0.6	21.8	6.8	0.6	19.3

The upcoming 8th Lao National Socio-Economic Development Plan (NSED) 2016–2020, in the corresponding sectoral plan and the draft Health Sector Financing Strategy 2016–2020, sets achieving universal health coverage as a strategic health sector goals.

Under the current strategy, the Government is aiming to achieve 80 per cent population coverage by 2020 and universal health coverage by 2025. These targets may be highly ambitious, given that current coverage under existing social health protection programmes is estimated at just 25.2 per cent. Extension of coverage to the non-poor informal economy, which represents most of the uncovered population, seems to have largely stalled, apart from the ongoing extension of maternal and child health care benefits under the national MNCH programme.

## Social health protection schemes

Social health protection currently comprises four main schemes:

- social health insurance for formal economy employees and their family dependents, as part of the formal social security system/National Social Security Fund (NSSF);
- voluntary Health Insurance for the self-employed and informal economy administered by the National Health Insurance Bureau (formerly CBHI);
- HEFs providing free coverage for the poor; and
- a MNCH scheme providing free health care to women in maternity and to children under the age of five years.

Health insurance under NSSF, the formal social security scheme, covers virtually all public sector employees, and an estimated 14 per cent of formal economy workers and family dependents. In total, NSSF health insurance covers about 8.6 per cent of the population.

CBHI, voluntary health insurance for the informal economy, targets about 50 per cent of the population (non-poor informal economy households), but so far coverage has reached only 2.4 per cent of the population, with CBHI schemes implemented so far in 45 districts (out of a total 148 districts in the country). The CBHI scheme has witnessed a slow extension of coverage and high dropout rates. Anecdotal evidence suggests that CBHI schemes currently do not collect sufficient contributions to ensure adequate compensation and responsiveness on the part of health facilities.

Two non-contributory schemes, both operating with substantial donor funding inputs, currently provide free health care for specific target groups. Health Equity Funds (HEFs) target poor households, and currently cover about 9.8 per cent of the population, a figure largely unchanged since 2012. The MNHC programme, official government policy by decree since 2012, provides maternal care to pregnant women and health care to children younger than five years. The scheme currently provides maternal care in 111 districts and child health care in 69 districts.

While NSSF is a centralized government agency operating under the oversight of the Ministry of Labour and Social Welfare (MOLS), the other schemes are mostly project-based and highly fragmented, with different modalities, financing sources and administration structures in use by various donors and the Government.

## Planned developments

The Government is currently in the process of integrating existing schemes under the newly created National Health Insurance Bureau (NHIB) at the Ministry of Health. Decree No. 470/PM on the National Health Insurance Scheme (2012) provides the legal basis for establishing a national health insurance fund, together with the corresponding administrative body and governance structure. The objectives of the planned merger include economies of scale and efficiency gains by establishing an integrated administration, as well as consolidation of risk pools to allow for cross-subsidization between the different population groups.

So far, NHIB has begun integrating CBHI and HEF operations, while the formal economy health insurance benefits remain under NSSF management and MOLSW oversight. According to the Decree on National Health Insurance No. 470/PM (2012), health insurance schemes under the NSSF will be functionally and financially integrated along with the other schemes into a future national health insurance fund (NHI) managed by NHIB as an autonomous and financially independent agency.

However, building management and institutional capacity at the new NHIB, and guaranteeing patient accountability, remain challenges of particular concern before a potential transfer of NSSF health insurance branches to NHIB should be considered. Furthermore, the NHIB continues to operate under the MOH Department of Finance, and not, as envisioned in Decree 470/PM, as an autonomous agency. For NHIB to act as the main national health purchaser, some degree of institutional independence is required to allow for effective purchasing via contracting with public hospitals.<sup>27</sup>

Besides the ongoing efforts to integrate the existing schemes, NHIB also works toward expanding voluntary coverage in the informal economy. According to the provisions laid out in Decree 470/PM (2012), all CBHI schemes will be integrated under the future NHI scheme to be managed in a more centralized manner by the NHIB. Furthermore, Decree 470/PM suggests premiums will be subsidized by the Government at 50 per cent, in an effort to create incentives for new enrolments and support the extension of coverage.

**Table 6. Overview of social health protection schemes, 2014<sup>28</sup>**

	NSSF State Authority for Social Security (SASS) or former Social Security Office (SSO)		CBHI	HEFs	MNCH
Supervising authority	MOLSW	MOLSW	NHIB/MOH	NHIB/MOH	NHIB/MOH
Target population	Civil servants and family dependents	Formal private sector employees and family dependents	Non-poor self- employed and family dependents	Poor households	Women in maternity and children younger than five
Funding	Government and employee contributions	Employer and employee contributions	Households (insurance premiums)	Donors, Government	Donors, Government
Target population	411 024 6.4% of pop.	1 091 349 17.1% of pop.	3 189 273 49.8% of pop.	1 344 128 21% of pop.	Free MAT: 188 178 / 2.9%  Free CU5: 839 333 / 13.1%
Coverage as % of target population	96.5	14.1	4.8	46.6	Free MAT: 58.6%  Free CU5: 25.6%

<sup>27</sup> A separation of purchaser and provider is generally considered a prerequisite for effective purchasing and accountability vis-à-vis the beneficiaries of the scheme.

<sup>28</sup> Source: NHIB. Target population and coverage percentages adjusted by author based on 2015 Census total population figures and 2013 enterprise survey on number of private employees. All figures for 2014, except MNCH for 2013.

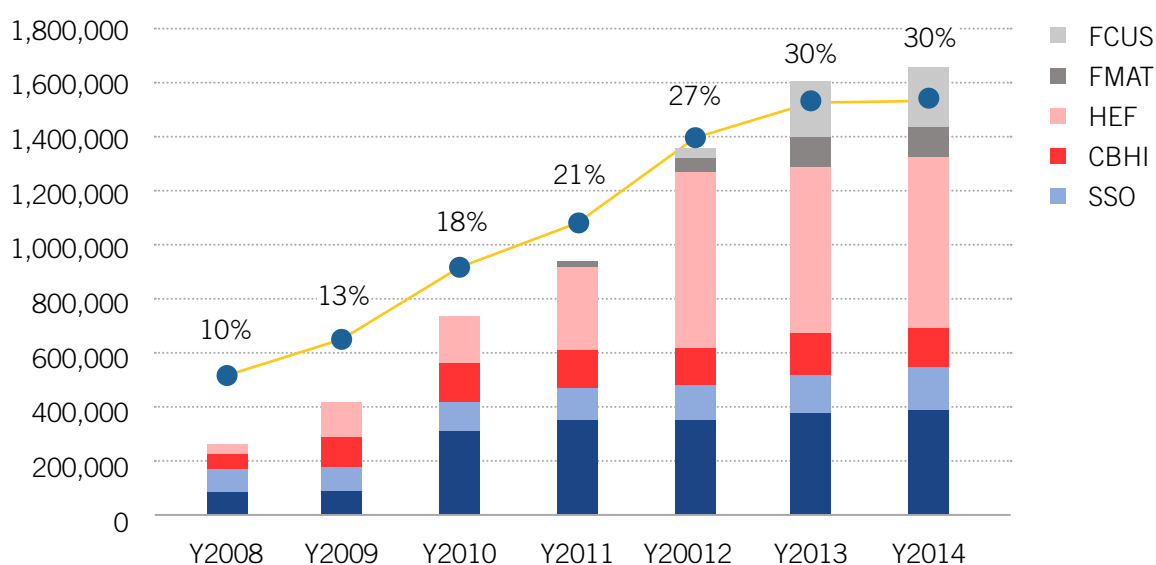
	NSSF State Authority for Social Security (SASS) or former Social Security Office (SSO)	CBHI	HEFs	MNCH
Coverage as % of total population	6.2	2.4	9.8	Free MAT: 1.7% Free CU5: 3.4%

**Estimated total coverage: 30.2%**

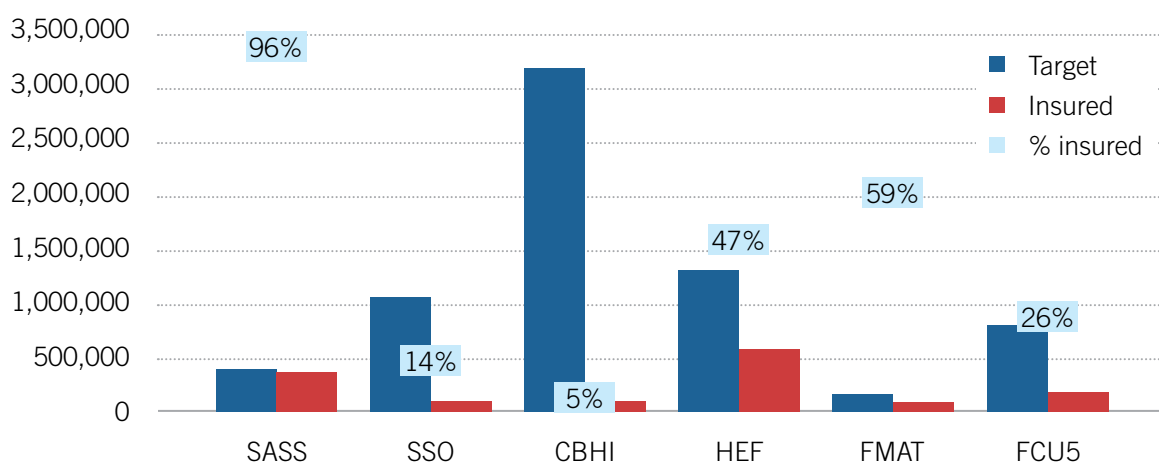
Notes on total coverage:

- Includes an estimated 5.7% for military, police and their dependents. Official figures for this group are not available.
- Total coverage does not exactly equal the sum of coverage of individual programmes due to overlaps of MNCH with other programmes.

**Figure 5. Coverage of social health protection schemes in Lao PR<sup>29</sup>**



**Figure 6. Coverage by social health protection scheme in 2014<sup>30</sup>**



<sup>29</sup> Source: NHIB coverage data, author's calculation of coverage percentage.

<sup>30</sup> Source: NHIB coverage data, author's calculation of coverage percentage and target population.

## 3.2 Social protection for children

Despite prevalent child poverty, child deprivation, child malnutrition and other issues related to child well-being, few social protection provisions target children.<sup>31</sup> A minimum SPF for children should ensure basic income security for children, providing access to nutrition, education, care and other essential goods and services.

Social protection for children mainly consists of the MNCH scheme to provide health care to children younger than five years (see previous section) as well as education-related schemes that aim to provide free education or incentives for enrolment and attendance in the form of scholarships, education vouchers or school meals.

### Education

School enrolment rates among students from poor households continue to be significantly lower than those among the non-poor, especially at secondary and higher levels of education (28.2 per cent and 56.6 per cent, respectively, in 2013). Ensuring equitable access to education and improving educational outcomes of poor and disadvantaged groups should take priority in reducing poverty and building human capital.

The Education Law defines a right to equitable access to education for all, regardless of ethnicity, gender, physical or socio-economic status. The Law also defines the Government's role in providing support to poor and disadvantaged students.

### School fees

To ensure equitable access to education for all, the Government aims to abolish fees for education at all levels. The Government has gradually started to provide schools with block grants to replace these fees. School fees in primary and secondary education were formally abolished by decree in 2012. However, schools currently receive block grants at levels far below their funding needs (from 13 to 33 per cent depending on the level of education). Thus parents are still normally required to pay financial contributions to schools. Schools have been instructed to grant fee exemptions to poor families on a case-by-case basis.

### Scholarships

Beyond direct school fees, additional costs such as boarding, materials and opportunity costs present a barrier to education for the poor. This is especially true with secondary education. While there are efforts to improve equitable access to secondary education through scholarship programmes, the number of available scholarships so far is extremely low. Expanding scholarships is part of government strategy, however, meaning a strong increase in funding will be required in the coming years.

### Nutrition

A significant gap remains in the provision of nutrition and income security for infants and for

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<sup>31</sup> Children are disproportionately likely to be affected by poverty. Among children younger than five years, prevalence of anaemia is greater than 60 per cent, stunted growth 44 per cent, and being underweight 27 per cent. Rates are significantly higher in poor families, rural areas and ethnic groups. For an in-depth assessment, see the *Child well-being and disparities in Lao PDR* report (National Commission for Mothers and Children, Ministry of Planning and Investment and UNICEF, 2012), [https://www.unicef.org/socialpolicy/files/Laos\\_Child\\_Well\\_Being\\_study.pdf](https://www.unicef.org/socialpolicy/files/Laos_Child_Well_Being_study.pdf) [accessed 22 Aug. 2017].

children of school age. Chronic malnutrition affects more than 40 per cent of children younger than five years in Lao PDR. The first 1,000 days of a child's life (from the onset of pregnancy to the child's second birthday) are critically important in preventing nutrition-related diseases. Government and donor programmes on child nutrition mainly focus on providing direct nutritional support in the form of supplements, as well as nutrition and hygiene education.

### SPF for children

Lao PDR has so far not achieved the SPF for children. As described above, several schemes aim to provide access to nutrition, education and health care for children. However, due to the limited coverage and often inadequate amount of funding of these schemes, children do not yet enjoy adequate and guaranteed access to these essential goods and services. The existing schemes should be improved and expanded with additional funding.

Existing schemes	Target group	Coverage
<b>Free schooling (block grants to abolish school fees)</b>	Students at all levels of education.	Students in pre-primary, primary and secondary education. Inadequate level of block grants. Unofficial fees still exist.
<b>Cash grants / scholarships for secondary education</b>	Students in poor families.	2 901 students.
<b>School meals</b>	Primary and secondary school students in disadvantaged districts.	2 135 primary schools out of a total 8 884; 200 secondary schools out of a total 1 586.
<b>Village Nutrition Centres (Poverty Reduction Fund–Livelihood Opportunities and Nutritional Gains (PRF-LONG)</b>	Mothers and young children.	429 mothers and children.

National stakeholders and policy-makers should also evaluate the possibility of introducing a child grant. A child cash grant would support and enhance the objectives of many of the existing schemes, and provide a minimum of income security for children in accordance with the SPF. While it is clear that supply-side challenges such as quality and availability in education, nutrition and health care need to be addressed, the existing financial and behavioural barriers to access should receive equal attention. Child cash grants enable families to prioritize their specific nutritional, health or educational needs, thereby promoting increased human capital investment in early childhood. Child cash grants have been used successfully in many countries to ensure more equitable access to essential goods and services, and pilots in Lao PDR have shown positive effects on use of maternal and neonatal health services.<sup>32</sup>

<sup>32</sup> See section 4.3.1, below, on conditional cash transfers under the World Bank's Community Nutrition Project, which dramatically increased use of neonatal health services and vaccination rates.

### 3.3 Social security for working age population

#### 3.3.1 Social security for formal economy workers

The social protection system for formal economy workers includes benefits under the Labour Law (No. 43/NA of 2013) and the contributory social security system under the Social Security Law (No. 34/NA of 2013).

Labour Law benefits comprise entitlements with employer liability, consisting of severance pay, paid sick leave, paid maternity leave and paid leave for work injury. De facto coverage and access to these benefits is uncertain, with anecdotal evidence suggesting low levels of employer compliance.

The formal social security system originated in two separate schemes: the State Authority for Social Security (SASS) for public sector employees; and the Social Security Organization (SSO) for workers in the formal private sector. These schemes provide a comprehensive benefit package including medical benefits, pensions, unemployment benefit (SSO only), sickness benefit, work and non-work-related disability benefit, maternity benefit, childbirth grant, survivor's benefit and a death grant. SASS has almost full coverage in the public sector, while SSO covers only about 38 per cent of its target population (workers in registered enterprises), for a combined coverage of about 8.1 per cent of the total population of Lao PDR, including dependents.<sup>33</sup> Employer compliance with compulsory SSO registration remains a challenge, since no mechanism (e.g. inspections or penalties for non-compliance) currently exists to enforce membership.

Following the adoption of a new Social Security Law in 2013 (No. 34/NA), the National Social Security Fund (NSSF) was set up to merge the two existing schemes (SASS and SSO) to improve risk sharing and sustainability. Additionally, the NSSF for the first time extends legal (voluntary) coverage to informal and self-employed workers, with the stated objective of rapidly expanding membership. However, the Government is not currently planning to subsidize contributions of voluntary members, and expansion of coverage to voluntary members remains a major challenge.<sup>34</sup>

During the ongoing merger of SSO and SASS under the NSSF, long-term financial sustainability needs to be safeguarded by way of thorough actuarial design of the new system. While SSO has been building strong financial reserves over recent years, the financial sustainability of SASS is not ensured. The SASS scheme is currently a pay-as-you-go system with no reserve funds. Originally, employee and employer (government) contributions were to be retained in off-budget reserve funds. However, this was not realized due to issues with late payment/unpaid contributions on part of the government. Government contributions are provided for each year only in accordance with necessary benefit expenses, leaving no reserve.

According to an ongoing actuarial evaluation of NSSF, several factors threaten the financial stability of the former SASS fund, even in the near future. Contributions are expected to be insufficient to cover pension benefits due to the new pension formula under the 2013 Social Security Law, and the relatively old demographic structure of SASS membership, factors that could result in necessitating budget subsidies to sustain the pension system.

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<sup>33</sup> Under the authority of the Ministry of Defense and the Ministry of Public Security, respectively, members of the military and police personnel are provided with social security schemes with similar benefits. Once police and military personnel become eligible for the pension or disability benefit, they are transferred to SASS. As of this writing, the exact number of police and military personnel was not publicly available, but NHIB coverage estimates of health benefits indicate a population share of 5.7 per cent for this group including dependents.

<sup>34</sup> The NSSF officially began accepting voluntary members in October 2014. As of August 2015, fewer than 2,000 voluntary members had been registered.



### 3.3.2 Social protection for the informal economy and the poor

The rural informal economy makes up the vast majority of Lao PDR's population. About 80 per cent of the economically active population earn their living outside formal employment. About 72 per cent are in the primary economy, a large proportion of them as subsistence farmers. This group receives the least coverage of any form of social protection.

As discussed above, health protection schemes in the informal economy mainly cover the poor (HEFs), while voluntary health insurance (CBHI) only covers a limited number of informal economy households. Other programmes, under social welfare or antipoverty headings, mainly consist of ad hoc disaster relief assistance and small-scale programmes targeting specific vulnerable groups or the poorest areas.

#### Social welfare

Social welfare programmes under the Ministry of Labour and Social Welfare consist of in-kind assistance schemes that provide short-term relief for disaster victims, as well as small-scale interventions for other vulnerable groups. This includes collaborations with international and local NGOs to operate homes for orphans and victims of trafficking or sexual violence.

However, no social welfare/assistance programmes currently provide long-term regular cash benefits, based on legally defined entitlements, to the poor and vulnerable groups.

A legal framework for non-contributory social welfare benefits is still in early stages of development. The Decree on Social Welfare No. 169/PM (2013) defines social welfare as short-term in-kind assistance, as well as long-term regular cash benefits (articles 8.2 and 9.1). Beneficiary categories are defined (article 7) to include orphans, people with disabilities, the elderly, victims of trafficking and victims of disasters. Other related legislation includes the Decree on People with Disabilities No. 137/GOV (2014), which stipulates benefits for people with disabilities who are poor, homeless or old (article 33).

However, the corresponding regulations for the implementation of these decrees so far exclude any regular cash benefits. Additional progress is necessary to initiate a planning process for a future implementation of the provisions stipulated in the mentioned decrees.

Further discussion and planning is needed for the potential introduction of cash entitlements, which could form an integral part of the wider social protection system and fill a crucial gap in the SPF.

#### Poverty reduction and livelihoods support

The Poverty Reduction Fund (PRF) is a community development programme with the objective of improving access to and use of basic infrastructures and services in priority poor communities. Communities in the selected areas receive funds and technical assistance, and decide on the types of development projects to be implemented. The community often contributes funds, land or other resources, and community members working for the projects are not paid. It is therefore not a social protection programme in the sense of providing employment guarantees. However, the infrastructure and improvement of access to services can help to improve livelihoods. Other than the economic impact of the infrastructure developed, there are also elements of empowerment, through decision-making at community levels, and training from technical assistance.

## Social protection coverage for informal economy and the poor

To provide social protection coverage for the informal economy, two distinct target groups should be considered:

- **Individuals or households who may experience temporary or seasonal food insecurity or income insecurity** due to lack of regular employment opportunities or the seasonal nature of agricultural production. Many of these households have spare labour capacity (throughout the year or in low seasons), but lack income-earning opportunities in rural areas.
- **Individuals or households who lack sufficient working capacity.** These may include people with disabilities, orphans, the elderly, single parents, those suffering sickness or injury, those in maternity, or in cases where the head of the household dies.

Distinct and appropriate policies are needed to provide social protection for these two groups:

- For unemployed and underemployed informal economy workers, in particular seasonal and agricultural workers, employment and income security should be addressed through such measures as public works programmes incorporating skills training and income-generating activities.
- Vulnerable groups who lack sufficient working capacity (such as people with disabilities, the elderly or women in maternity) should be provided with a minimum of income security through non-contributory social welfare benefits.

### 3.4 Social protection for the elderly

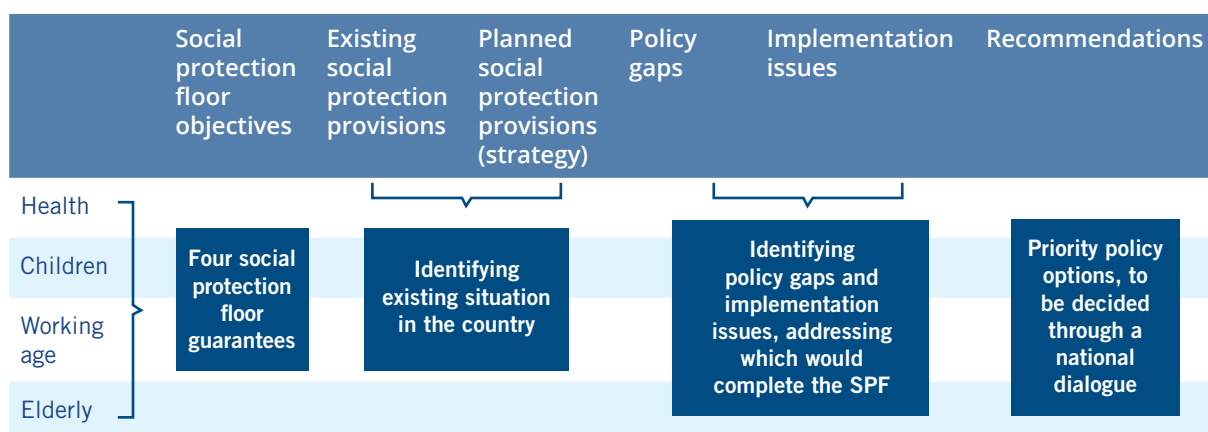
No social protection schemes specifically target the elderly, currently, except for pensions as part of the contributory formal social security system (SASS/SSO). Currently, an estimated 5.2 per cent of the elderly receive such a pension. As such, there is a lack of basic income security for the vast majority of the elderly who are ineligible, having spent their economically active years in the rural informal economy, for formal social security pensions. Recommendations by national stakeholders include considering the creation of a minimum social pension for this group, as well as of in-kind benefits such as free access to health care, housing or transportation.

# 4. Assessment of social protection provisions

## 4.1 Structure of the assessment

The matrix shown below provided a structure for assessment of the social protection situation in Lao PDR. The assessment matrix can facilitate (1) an analysis of the extent to which existing and planned social protection provisions approach the benchmarks set by the four guarantees of the SPF framework; and (2) the identification of policy priorities to complete the SPF. For each of the SPF guarantees, the assessment lists existing social protection provisions; their target groups and effective coverage; design gaps and implementation issues; and policy recommendations for potential improvement.

**Figure 7. The structure of the SPF assessment matrix**



In this context, policy recommendations are to be understood as a compilation of potential and preliminary policy measures that emerge from the analysis of social protection gaps and consultations with national and international experts. While all these recommendations have their merits, nothing is said – at this stage – about the administrative and financial feasibility of these policy options. They should be understood as a collection of proposals for further analysis by the Secretariat and Drafting Committee.

## 4.2 Social health protection

“ All residents have access to a nationally defined set of affordable essential health care services, including maternity care, that meet the criteria of availability, accessibility, acceptability and quality.

(ILO Recommendation No. 202)

#### 4.2.1 Existing provisions

##### NSSF – Health insurance for civil servants and formal private sector workers

<b>Legal framework</b>	Social Security Law, Regulation on the Implementation of the Social Security Law.
<b>Target group</b>	<p>The NSSF health-care scheme covers civil servants and formal private sector workers, as well as former members of that group receiving pension benefits, survivor benefits or invalidity benefits, along with their spouses and children (up to 18 years of age or up to 23 years if studying and unmarried).</p> <p>Estimated target groups (2014):<sup>35</sup></p> <p>Civil servants and dependents: 411,000 (6.5 per cent of the population).</p> <p>Formal economy workers and dependents: 1,091,000 (17.1 per cent of the population).</p>
<b>Benefit Package</b>	Members are covered for a comprehensive health services package including health examination and medical care, disease prevention, physical rehabilitation, pre- and post-natal services, and medical care in case of employment injury or occupational diseases. Coverage is provided for treatments at contracted hospitals as well as in other facilities in exceptional cases.
<b>Qualifying conditions</b>	One month of contributions in case of health treatment for work accidents, occupational disease, childbirth or miscarriage; three months for general disease or accident.
<b>Payment mechanism</b>	Provider payment is mainly by capitation.
<b>Financing</b>	Health benefits are paid out of the NSSF health fund, with an allocation of 1.5 per cent of contributors' salaries.

Population coverage	2014/including dependents	People covered	% of population	% of target group
	<b>Civil servants</b>	396 618	6.2	97
	<b>Formal private economy</b>	153 721	2.4	14
	<b>Total</b>	550 339	8.6	37

Note: Members of the armed forces and police force and their dependents are provided health-care treatments at military hospitals financed by member contributions and the government budget. Health insurance for the military and for the police falls under the authority of the Ministry of Defence and the Ministry of Public Security, respectively. The Ministry of Defence's scheme uses a capitation system similar to SASS, while the Ministry of Public Security's scheme uses a fee-for-service system. Once members retire, their health insurance coverage is transferred to the NSSF.

<sup>35</sup> Civil servants: NHIB estimate based on Lao Statistics Bureau; Ministry of Labour and Social Welfare of the Lao PDR: *Labour force and child labour survey, 2010* (Vientiane, 2011), <http://catalog.ihnsn.org/index.php/catalog/4687/study-description> [21 [accessed Aug. 2016]]. Formal private sector: author's estimate based on 2013 enterprise survey data.

## Health Equity Funds (HEFs)

<b>Programme background</b>	<p>Health Equity Funds, as a mechanism to fully subsidize health care for the poor, were first implemented in 2004 by the Swiss Red Cross (SRC). The MOH has since established HEFs in several provinces using mainly donor funding and a variety of implementation modalities. Five such projects are currently ongoing, funded by the Asian Development Bank (ADB), the World Bank-SRC, SRC, LuxDev, and government social budget allocations from Nam Theun 2 hydropower revenues.</p> <p>HEFs are part of the new national health insurance system defined by Decree No. 470/PM. In practice, HEFs are still implemented under various project-based guidelines under the supervision of the National Health Insurance Bureau (NHIB).</p>
<b>Target group</b>	<p>HEFs are intended to cover all poor households. In practice, targeting criteria vary between HEF projects. The Ministry of Health's HEFs targeted an annually produced government list of poor households following Decree No. 201/PM (currently containing 8 per cent of all households). In contrast, the percentage of the population living below the national poverty line is estimated at 23.2 per cent, based on household survey data for 2012–13,<sup>36</sup> or 30.3 per cent living below the international poverty line of \$1.25 per day PPP (2012).<sup>37</sup></p>
<b>Benefit package</b>	<p>Comprehensive medical services (minor variations between HEFs), food and transport allowance.</p>
<b>Payment mechanism</b>	<p>Varying mixed mechanisms. Predominantly capitation for lower-level health providers and case-based for higher levels.</p>
<b>Financing</b>	<p>Donor funding and government budget allocations from Nam Theun 2 hydropower revenues earmarked for social sectors.</p>
<b>Population coverage</b>	<p>In 2014, coverage was reported at about 9.8 per cent of the population (626,180 people covered), largely unchanged since 2012. Coverage within programme districts stands at 16 per cent according to NHIB data.</p>

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<sup>36</sup> LECS 5, op. cit.

<sup>37</sup> Poverty Profile Lao PDR (2014), op. cit.

## Community-based health insurance (CBHI), voluntary contributory health insurance for informal economy

<b>Programme background</b>	<p>The Community-Based Health Insurance system provides voluntary health insurance, primarily targeting households in the informal economy.</p> <p>CBHI schemes were introduced on a pilot basis in 2002, with extension starting in 2006 under MOH supervision. Extension has been slow, with current coverage at about 4.8 per cent of the target population and operations in about a third of districts. Adverse selection, irregular payment of contributions and high drop-out rates remain problematic for most CBHI schemes. With the adoption of Decree 470/PM, all formerly decentralized CBHI schemes were integrated under the NHIB, and premiums were henceforth to be subsidized by the Government at 50 per cent.</p>
<b>Legal framework</b>	Ministry of Health Regulation No. 723 (2005), Decree on National Health Insurance No. 470/PM (2012).
<b>Target group</b>	CBHI targets non-poor households outside the formal labour market, estimated at 50 per cent of the population.
<b>Benefit Package</b>	The benefit package covers both outpatient and inpatient services including primary health care, specialist services, diagnostic tests and prescription drugs listed on the MOH essential drugs list.
<b>Payment mechanism</b>	The provider payment mechanism varies by health facility levels, with hospitals receiving funding through capitation, while case-based payments are applied at the health-centre level.
<b>Financing</b>	<p>Contribution rates vary according to urban (Vientiane only) or rural residence and household size, ranging from LAK12,000 to LAK58,000 per month per household (2013).</p> <p>Decree 470 stipulates a 50 per cent government subsidy on contributions.</p>
<b>Population coverage</b>	<p>In 2014, coverage was about 2.4 per cent of the population (151,981 beneficiaries), or 4.8 per cent of the target population, largely unchanged since 2010 (NHIB data). Coverage within programme districts stands at 6 per cent.</p> <p>These figures are likely overestimated, as members who have ceased paying contributions might be reflected in the annual member count.</p>

## Maternal, Neonatal and Child Health (MNCH) Programme

<b>Programme background</b>	<p>The MNCH programme is a national policy aiming to provide free health care for pregnant women and children younger than five years to reduce maternal and infant mortality.</p> <p>Free MNCH began implementation around 2010, with a series of projects implemented by the Ministry of Health and development partners. Currently, at least seven organizations run separate MNCH programmes in different provinces using different implementation modalities.</p> <p>Free provision of MNCH services was adopted by decree in 2014 (Decree 273/PM on the National Policy for Free Maternity for All and Free Health Services for Children Under 5), providing a legal basis for nation-wide expansion.</p> <p>According to MOH guidelines, universal coverage is to be achieved gradually, stating that “from 2013 to 2015, the policy will start in poor districts and governmental focus sites for development whereupon it will be expanded to urban areas (in accordance with governmental measures and conditions)”.</p>
<b>Legal framework</b>	Decree 273/PM (2014).
<b>Target group</b>	<p>All pregnant women and children under five years of age.</p> <p>Target group estimates (2014, NHIB):</p> <ul style="list-style-type: none"><li>• pregnant women: 191,000 (2.9 per cent of the population); and</li><li>• children under 5: 853,000 (13.1 per cent of the population).</li></ul>
<b>Benefit package</b>	<ul style="list-style-type: none"><li>• MOH-implemented free MNCH</li></ul> <p>The MNCH benefit package under the MOH-implemented project, based on MOH guidelines, provides medical benefits for four antenatal care (ANC) visits, delivery in a health facility, two postnatal care (PNC) visits, vaccinations (in accordance with the National Vaccination Scheme), three-monthly visits for children 0–1 years old, six-monthly visits for children 2–5 years old, and curative services for common childhood diseases as well as non-medical benefits including transportation and food costs (for the patient and one family member), plus bonuses when the women finish all four ANC visits.</p> <ul style="list-style-type: none"><li>• Free MNCH by other organizations</li></ul> <p>MNCH projects implemented by other organizations generally have similar benefits for pregnant women, but may differ for other benefits.</p>
<b>Financing</b>	Government (Nam Theun 2 hydropower revenues) and donors.
<b>Population coverage<sup>38</sup></b>	<p>Free maternity: 110,290 or 59 per cent of the target population (1.7 per cent of total population).</p> <p>Free for children under 5: 214,937 or 26 per cent of the target population (3.4 per cent of total population).</p> <p>Geographic coverage:</p> <ul style="list-style-type: none"><li>• free maternity: 111 districts (out of 148 districts); and</li><li>• free CU5: 69 districts.</li></ul>

## 4.2.2 Policy gaps and implementation issues

<b>Fragmentation</b>	The existing social health protection schemes are fragmented, with separate administrative agencies in charge and parallel financing channels, constraining the system from larger risk pooling and greater efficiency.
<b>Inconsistent and unclear financing of long term-financing of non-contributory schemes</b>	The non-contributory HEF and MNCH schemes are still operated mainly by development partners, and fall short of providing an entitlement-based national system of free healthcare for the target groups. While MNCH has been given a legal framework by decree, implementation still relies on development partners, and geographical coverage is still incomplete. The two schemes still rely on donor funding, hence their long-term financial sustainability is questionable.
<b>Governance</b>	NHIB as a new institution faces various challenges in managing and gradually harmonizing the existing social health protection schemes. During this process, it is crucial to ensure solid financial governance, administrative and technical capacity and accountability to beneficiaries. Any potential future integration of the NSSF health insurance branch under NHIB needs to be cautiously evaluated in light of institutional capacity and governance concerns, including a lack of institutional and financial independence from MOH and the resulting overlap of health provider and purchaser functions.
<b>Quality of care</b>	Problems with quality of health care pose challenges to all social health protection schemes, resulting in de facto inadequate health protection.
<b>Coverage of informal economy</b>	<p>Efforts to extend social health protection to the informal economy face significant challenges. Nearly a decade after their first implementation, all voluntary CBHI schemes combined covered only 2.4 per cent of the population or less than 5 per cent of the target group, suffering from adverse selection, irregular contributions and high numbers of drop-outs. International experience shows that these are typical and systemic challenges for voluntary contributory schemes, in part due to limited awareness and lack of familiarity with insurance concepts among the target population.</p> <p>A 50 per cent subsidy on CBHI premiums was introduced under Decree No. 470 to incentivize membership and to lower the number of drop-outs. However, given the present high discrepancy between the population targeted by CBHI (50 per cent of the total population) and the effective coverage (2.4 per cent of the total population), this new provision alone is unlikely to result in swift expansion toward universal coverage.</p>
<b>HEF targeting</b>	The HEF scheme is intended for poor households, but beneficiary targeting varies between implementing agencies. The methodology used by MOH/HEF to identify poor households as beneficiaries (government list of poor households) results in a significantly lower beneficiary number than the poverty headcount calculated from national expenditure and consumption surveys.

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<sup>38</sup> NHIB data for 2014.



**Enforcement of SSO membership** Despite the statutory nature of NSSF membership, coverage among formal economy workers remains low. Enforcement is inadequate, since there are currently no inspections or penalties for non-compliance.

#### 4.2.3 Policy recommendations

The main challenges identified include the following: (1) mobilization of increased funding for the health sector, including for the expansion of MNCH and HEF; and (2) in light of the slow pace of expansion of the voluntary CBHI system, developing a feasible coverage model for the informal economy.

As long as underlying issues of quality of care and institutional capacity and general adverse selection issues remain unresolved, merely providing subsidies to contributions (as stipulated in Decree 470/PM) might prove insufficient to achieve faster expansion of voluntary health insurance. This report proposes exploring long-term alternatives such as making social health insurance mandatory for the non-poor informal economy, with a certain degree of subsidization. This would present a considerable challenge, but very few alternatives are systematically compatible with the emerging structure of the health financing system. A non-contributory scheme addressing catastrophic health costs could be worth considering as an alternative option, one that might promise more realistic implementation capacity in the short and medium terms. Other solutions might include the option of fully funding worker contributions in the informal economy, in a model closer to the system implemented in Thailand.

This study acknowledges its limitations in fully exploring all the options available to extend social health protection in Lao PDR. The adequacy and feasibility of the different options mentioned in this report (including the recommendations presented below) need further assessment beyond the scope of this study, including assessment of the impact of models already tested in different geographical locations with the support of development partners.

It is important to note that, in parallel with the finalization of the ABND process, a more specific group of health sector stakeholders are holding discussions regarding health funding policies that will likely influence future options regarding the extension of health social protection. Therefore, the following recommendations need to be read as preliminary proposals presented mainly for illustrative purposes:

**Substantially increase overall health sector funding** to improve quality of and access to health-care services at all levels, in line with the target of the Health Sector Reform Strategy (domestic government spending to be increased to 3–4 per cent of GDP by 2025).

**Explore the gradual national establishment and expansion of health protection mechanisms managed by the NHIB for the non-poor informal economy**, using a model of subsidized contributions or subsidized flat treatment fees, or some other appropriate alternative model. One option that could complement the emerging structural coverage pattern of the health sector is gradual introduction of a mandatory subsidized health insurance scheme under NHIB management. Any mandatory insurance scheme, however, would face challenges of enforcement and institutional capacity. With respect to subsidization, the impact of different options needs to be further assessed, including fully or partial subsidization. A non-contributory scheme addressing catastrophic health costs for the uninsured population might be an alternative worth considering, especially in the short and medium terms.

Regarding all the different scenarios, it is essential to ensure that social health protection policy options are consistent with policy options concerning the supply side, which goes beyond the scope of this study.

**Work towards a harmonized national system of health coverage** consisting of appropriate schemes according to target groups: (1) introduce a unified minimum benefit package and equally high quality care for all; (2) systematize efforts to improve long-term fiscal planning and budgeting; and (3) ensure financial sustainability through legally defined contributions from the non-poor, formal and public sector and Government to the overall national health budget.

There follow three related recommendations:

- Pursue the national extension of free MNCH and free care to the poor under HEFs in all districts, ensuring more sustainable and systemic funding mechanism under government responsibility and implementation based on nationally harmonized regulations.
- Review and harmonize targeting criteria for HEF projects defined in national regulations.
- Increase effective NSSF coverage in the formal private sector by implementing an enforcement mechanism that includes the following: (1) periodic inspections at enterprises registered with the Ministry of Commerce and Industry; and (2) legal provisions allowing penalties to be levied from non-compliant employers.

**Ensure NHIB's institutional and financial independence.** Review NHIB institutional, coverage, governance (oversight and complaints mechanisms) and budgetary arrangements.

### 4.3 Social protection schemes for children

“ Basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services.

(ILO Recommendation No. 202)

#### 4.3.1 Existing provisions

##### Schemes to eradicate financial barriers to education

###### Background

To improve equitable access to education, the Education Sector Development Framework 2011–2015 and the National Strategy and Action Plan on Inclusive Education 2011–2015 identified several priority policies to reduce direct and indirect cost barriers to education. Core policies include the gradual abolishment of school fees, and provision of scholarships for the higher levels of education (for details on scholarships for higher education, see section 4.4 Social Protection Schemes for People in Working Age).

**Free education  
(block grants)**

To ensure equitable access to education for all, the Government has set a goal of abolishing fees for education at all levels. The Government has gradually started to provide block grants to schools to replace these fees.

School fees in primary and secondary education were formally abolished by decree in 2012, and block grants were rolled out nationally to pre-schools, primary, lower and upper secondary schools in 2012–13.

However, current levels of block grant do not sufficiently cover school funding needs. As a consequence, parents often still need to pay financial contributions to schools. Schools have been instructed to grant fee exemptions to poor families on a case-by-case basis.

Block grants by level of education	Required amount per student (MOES estimate, in kip)	Amount per student currently paid to schools
Early childhood education		20 000
Primary	150 000	50 000
Lower secondary	120 000	20 000
Upper secondary	150 000	20 000
TVET	500 000	-
Higher education	550 000	-

According to MOES, a target has been set to provide sufficient block grants across all levels of education by 2025, thereby abolishing fees for education at all levels.

**Secondary  
Student Stipend  
Programme  
(ADB)**

The Secondary Student Stipend Programme, under the ADB's Secondary Education Sector Development Project, provides cash stipends for lower and upper secondary education to poor and disadvantaged students. The Programme operates in 30 districts in six provinces that the Government designates as both poor and educationally disadvantaged. Students are selected according to the government designation of "poor households", along with a 40 per cent quota for female students.

A cash benefit of LAK410,000 per semester is paid directly to students in monthly instalments.

Currently, according to ADB data, only 2,901 students (or less than 0.5 per cent of all secondary school students) have received stipends, including 1,535 females and 2,634 from ethnic communities.

## National School Meal Programme (NSMP)

<b>Programme background</b>	<p>In 2002 the World Food Programme (WFP), in cooperation with the Ministry of Education and Sports (MOES), initiated the first School Meal Programme, providing fortified snacks for primary school students and take-home rations for secondary school students. Similar programmes for primary school students are run by Catholic Relief Services and the Education for Development Fund. MOES launched the National School Meals Programme (NSMP) in 2012, and intends to gradually take over implementation from development agencies.</p> <p>While the WFP programme was originally set up to curb malnutrition, the NSMP, under MOES, is now mainly an effort to improve school attendance and completion rates.</p> <p>In line with NSMP methodology and government strategy, WFP is planning the conversion of its programme from distributing fortified snacks to providing locally sourced school lunches,. By 2017, WFP expects to have lunch programmes in 780 out of 1,509 project schools.</p>
<b>Legal framework</b>	A Policy on Promoting School Lunch was adopted in 2014 (Decree No.1679/MOES).
<b>Target group</b>	<p>MOES NSMP: primary schools in districts with low educational and socio-economic outcomes.</p> <p>WFP: primary and secondary schools in disadvantaged districts.</p> <p>Target group according to Policy on Promoting School Lunch: children in kindergarten, pre-primary, primary and secondary school in rural, remote and poor areas, ethnic communities, children with special needs, and children in areas with low educational outcomes, gender disparities and high prevalence of malnutrition.</p>
<b>Benefit package</b>	<p>The MOES National School Meal Programme (NSMP) provides school lunches by sourcing food from school gardens as well as by paying schools in cash for purchasing food from the community.</p> <p>The WFP school meal programme provides fortified mid-morning snacks for primary school children and take-home rations for primary and secondary school students whose homes are far from school and who stay in dormitories.</p>
<b>Financing</b>	<p>MOES NSMP receives funding from the Global Partnership for Education under a World Bank project (\$7.2 million for 2012–14).</p> <p>WFP's programme relies on funding by the United States Department of Agriculture (USDA) and other donors.</p>
<b>Population coverage</b>	<p>Overall coverage: 2,135 primary schools out of a total of 8,884; 200 secondary schools out of a total of 1,586.</p> <p>(MOES NSMP: 306 primary schools; WFP: 1,509 primary schools and 200 secondary schools; CRS and EDF: 316 and 4 primary schools respectively.)</p>

## Previous cash transfer pilot programmes

Some small-scale cash transfer pilot programmes have been implemented in the past, in support of health and education objectives.

<b>World Bank Community Nutrition Pilot Project</b>	The World Bank's Community Nutrition Pilot Project (2010–13) included a conditional cash transfer (CCT) component in which families with pregnant/lactating women and children under two years of age were provided cash benefits for using health services in health centres. The Community Nutrition Project had the overall objective of increasing use of essential maternal and child health services and improving mother and childcare practices. It operated in 62 health centres and enrolled 86 per cent of the eligible women in the target area. Use of health services during and after pregnancy increased dramatically, with 67 per cent of mothers attending check-ups during the first year after pregnancy (previously 10 per cent) and child vaccination rates almost doubling to 44 per cent.
<b>ADB Basic Education for Girls project</b>	The Basic Education for Girls project (1998–2008) was a cash transfer programme targeted to disadvantaged girls from ethnic communities. Cash support was provided to poor parents (\$150–250) to offset the cost associated with schooling (e.g. transportation, uniforms, books). Between 2000 and 2007, the initiative led to the grade-five enrolment rate rising from 12 per cent to 55 per cent for girls and from 16 per cent to 55 per cent for boys.

## Livelihood opportunities and nutritional gains (PRF-LONG)

<b>Background and benefits</b>	<p>The PRF Phase II includes a pilot component on livelihoods and nutrition (LONG), including direct nutritional interventions for mothers and young children.</p> <p>Village Nutrition Centres implement direct nutritional measures, providing midday meals, childcare, nutrition education, and support for creation of home gardens, while serving as a contact point for maternal and child health (MCH) services.</p>
<b>Financing</b>	Donor financed.
<b>Coverage</b>	During the pilot phase, LONG operated in 85 villages in four districts, establishing 15 Village Nutrition Centres covering 429 mothers and children. <sup>39</sup>

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<sup>39</sup> Poverty Reduction Fund: *PRF-LONG progress report June 2015* (Government's Office, Vientiane, 2015), <http://prflaos.org/sites/default/files/Library%20Items/files/1003/eng/Final%20PRF%20Annual%20Progress%20Report%202014-15.pdf> [accessed 19 Aug. 2016].

### 4.3.2 Summary of existing provisions for children

Scheme	Target group	Coverage
Free schooling (block grants to abolish school fees).	Students at all levels of education.	Students in pre-primary, primary and secondary education. Inadequate level of block grants. Unofficial fees still exist.
Cash grants / scholarships for secondary education	Students in poor families.	2,901 students
school meals.	Primary and secondary school students in disadvantaged districts.	2,135 primary schools out of a total of 8,884; 200 secondary schools out of a total of 1,586.
Village Nutrition Centres (PRF-LONG).	Mothers and young children.	429 mothers and children.

### 4.3.3 Policy gaps and implementation issues

#### Basic social protection for children

Despite a high prevalence of child poverty, child deprivation, child malnutrition and other issues related to child well-being,<sup>40</sup> only a few social protection provisions target children.

Specifically, a gap remains in providing nutrition security for the young and children of school age. The National School Meals Programme is not sufficient to provide adequate micronutrient-rich nutrition to children of school age. Moreover, as its main target is to increase school enrolment and attendance, neither does it reach out to children of pre-school and pre-kindergarten age. The financing of the School Meals Programme still relies to a large extent on donor funding, and is thus less reliable than would be desirable.

#### Free education (block grants)

Levels of block grants paid to schools are insufficient to abolish the need to have parents pay school fees. Since reporting of students numbers at the beginning of the school year passes through multiple levels before reaching the central level, where MOES can make budget requests, payments to schools arrive late in the school year. Although the net primary school enrolment rate appears to be high (98 per cent),<sup>41</sup> the persistence rate through primary school is relatively low (77.5 per cent), which could indicate that remaining school fees still may provide barriers to school attendance for the poor. The number of scholarships for secondary education appears low.

<sup>40</sup> Among children younger than five years, the prevalence of anaemia is more than 60 per cent, stunted growth 44 per cent, and being underweight 27 per cent. Rates are significantly higher in poor families, rural areas and ethnic groups. For an in-depth assessment, see National Commission for Mothers and Children; Ministry of Planning and Investment; UNICEF: *Child well-being and disparities in Lao PDR* (Vientiane, 2012), [https://www.unicef.org/socialpolicy/files/Laos\\_Child\\_Well\\_Being\\_study.pdf](https://www.unicef.org/socialpolicy/files/Laos_Child_Well_Being_study.pdf) [accessed 16 Aug. 2017].

<sup>41</sup> Lao EduInfo: Ministry of Education and Sports data, [www.devinfo.org/laoeduinfo](http://www.devinfo.org/laoeduinfo) [accessed 18 Aug. 2017].

#### 4.3.4 Policy recommendations

The overall conclusion is that the SPF for children in Lao PDR has yet to be achieved. Children in poor families, in particular, as well as children in disadvantaged groups and regions often lack equitable and reliable access to nutrition, education, care and other essential goods and services.

Given that 35 per cent of the Lao population is younger than 15 years old, this group should receive increased attention in future social protection policy development. Child-focused social protection constitutes an investment in the country's economic and social future through reduced childhood poverty and improved education, health and nutrition.

In the light of these findings, the report proposes the following recommendations:

**Introduce a child cash grant** to address child nutrition security and child poverty, among other things stimulating human capital investment in early childhood. A child cash grant would support and enhance the objectives of many of the existing schemes in nutrition, education and health, and provide a minimum of income security for families with young children in accordance with the social protection floor. Potential options include the following: (1) a universal child grant to ensure a basic level of income security for all families with young children; (2) a poverty-targeted child grant; and (3) a CCT scheme providing cash benefits to poor families conditional on their use of child nutrition and health services.<sup>42</sup>

**Increase and protect block grant budget allocations** to schools to achieve free education at all levels. Improve administration for timely provision of school funding.

**Expand scholarship programmes** for secondary school, focusing on students from poor families and vulnerable groups such as students with disabilities and female students from ethnic groups.

**Extend coverage of the school meals programme** to all students in primary and pre-primary education in educationally and nutritionally disadvantaged districts. Review adequacy of current model to ensure sufficient nutrition security for students.

### 4.4 Social protection schemes for people of working age

“ People in working age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability, enjoy basic income security, at least at a nationally defined minimum level.

(ILO Recommendation No. 202)

#### 4.4.1 Existing provisions

##### Formal contributory social security

The social protection system for formal economy workers includes the following: (1) temporary wage continuation in case of sickness, maternity, employment injury and occupational diseases; (2)

<sup>42</sup> For all options, explore linkages with nutrition, health or education interventions, building on experience of existing child nutrition and health programmes such as the Village Nutrition Centres under the PRF-LONG project; Integrated Health and Nutrition outreach activities of the Lao Women's Union under the European Union (EU)-UNICEF project; and the previous ADB and World Bank CCT pilots.

severance pay under the Labour Law (No. 43/NA of 2013), for which employers are liable; and (3) a range of short- and long-term cash benefits along with medical benefits as part of the compulsory contributory social security system under the National Social Security Fund (NSSF) in accordance with the Social Security Law (No. 34/NA of 2013).

The Social Security Law No. 34/NA (2013) established the legal basis for the creation of a National Social Security Fund (NSSF) to manage and harmonize the existing separate compulsory social security schemes: (1) formal private sector workers under the Social Security Organization (SSO); and (2) civil servants, military and police personnel under the State Authority for Social Security (SASS). Additionally, the NSSF for the first time offers legal (voluntary) coverage to informal and self-employed workers, with the stated objective of rapidly expanding membership. However, the Government is currently not planning to subsidize voluntary member contributions, and expansion of coverage remains a major challenge.

The NSSF began operating in October 2014, while SSO and SASS continue their gradual merger.

<b>Target group</b>	<p>Labour Law benefits: By law, these benefits apply to all formal economy workers.</p> <p>NSSF/Social Security benefits: Compulsory membership for workers in the public sector and formal private sector, voluntary membership for self-employed/informal workers.</p>
<b>Coverage</b>	<p>Labour Law benefits: Incomplete coverage due to lack of compliance of employers.</p> <p>NSSF/Social Security benefits: In 2014, NSSF covered an estimated 14.5 per cent of the population including family dependents:</p> <ul style="list-style-type: none"> <li>• public sector: 12.1 per cent of the population<sup>43</sup> (97 per cent of target population);</li> <li>• private sector: 2.4 per cent of population (14 per cent of target population); and voluntary members: &lt; 0.1 per cent of the population.</li> </ul>
<b>Financing</b>	<p>Labour Law benefits: Employer liability.</p> <p>NSSF benefits: Contributions are currently set at 8.5 per cent from the employer plus 8.0 per cent from the employee for the public sector, and 6.0 per cent employer plus 5.5 per cent employee for the private sector. The minimum monthly earnings used to calculate contributions are the minimum wage at currently LAK900,000; the maximum monthly earnings used to calculate contributions are LAK2,000,000.</p> <p>Contributions are allocated to sub-funds as indicated below.</p>

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<sup>43</sup> Includes an estimated 5.7 per cent of population for police and military and their dependents.



**Table 7. Allocation of contributions to benefit funds, in % of insurable earnings, NSSF**

	Civil servants	Private sector	Voluntary members
Long-term benefit fund (old age, disability and survivors)	12	5	5
Short-term benefit fund (sickness, maternity, death)	2.5	2.5	2.5
Medical (health insurance)	1.5	1.5	1.5
Work injury	0.5	0.5	na
Unemployment	na	2	na
<b>Total:</b>	<b>16.5</b>	<b>11.5</b>	<b>9</b>

## Unemployment benefits

<b>Legal framework</b>	The Social Security Law of 2013 (articles 44–49) and the Regulation on the Implementation of the Social Security Law (articles 44–49).
<b>Target group</b>	Social security contributors (NSSF).
<b>Benefit</b>	<p>Monthly benefit of 60 per cent of the average monthly insurable salary or wage over the previous six months. The duration of the benefit is three months, if the length of the insured period is between 12 and 36 months; six months, if the length of the insured period is between 37 and 72 months; nine months, if the length of the insured period is between 73 and 144 months; and 12 months, if the length of the insured period is more than 144 months.</p> <p>Payout begins after 30 days of unemployment.</p> <p>Recipients also receive vocational training as necessary, and are assisted with job searches through provision of relevant information.</p>
<b>Qualifying conditions</b>	<p>At least 12 months of prior insured period and 30 days of registered unemployment.</p> <p>The benefit is not paid if the worker has voluntarily resigned from a job without acceptable reason or has been laid off due to breaking work regulations. The benefit ceases if the recipient refuses to take on new work without acceptable reason.</p>
<b>Financing</b>	Social security contributions.

## Severance pay

<b>Legal framework</b>	The Labour Law (Article 90) stipulates the responsibility of employers to provide severance pay in case of termination of contract by dismissal.
<b>Target group</b>	Formal sector workers.
<b>Benefit</b>	In case of dismissal with justified cause according to the regulations of the Labour Law, workers are to be compensated to the amount of 10 per cent of the monthly salary multiplied by the number of months worked. If the worker is dismissed without just cause, compensation increases to 15 per cent.
<b>Financing</b>	Employer liability.

## Sick leave and sickness benefit

<b>Legal framework</b>	The Labour Law (articles 56 and 129) regulates sick leave for all workers. A sickness benefit for social security fund members is specified in the Social Security Law (articles 28–30) and the Regulation on the Implementation of the Social Security Law (articles 28–30).
<b>Target group</b>	Sick leave: formal economy workers. Sickness benefit: social security contributors (NSSF).
<b>Benefit</b>	Employers are responsible to pay full salary during sick leave of a maximum 30 days, and, should the worker be an eligible social security contributor, sickness benefits are paid by the NSSF after the 30-day period. The NSSF sickness benefit is paid for up to six months at 70 per cent of the insured wage. If the health condition is expected to improve, the benefit is extended by another six months at 60 per cent of the wage. Otherwise, the worker is transferred to the long-term disability benefit.
<b>Qualifying condition</b>	Sickness benefit: minimum three months of social security contributions.
<b>Financing</b>	Employer liability (for the first 30 days) and social security contributions.

## Employment injury, occupational disease and non-work-related disability benefit

<b>Definition</b>	This benefit covers workers in case of a temporary or permanent reduction of their working capacity as a result of employment injuries (injuries incurred while performing work, while at place of work or during the commute), occupational diseases, and non-work-related disability.
<b>Legal framework</b>	The Labour Law (article 128) regulates the temporary continuation of wages or salaries in case of employment injury and occupational disease. The Social Security Law (articles 20–27) and the Regulations on the Implementation of the Social Security Law (articles 20–27) regulate benefits in case of loss of working capacity as a result of work-related and non-work-related conditions (after the expiration of the period of continued wage payments).

<b>Target group</b>	<p>All formal economy workers are eligible for six months of employer-paid benefits in case of work-related disease or injury.</p> <p>Additionally, social security contributors are eligible for long-term benefits or in cases of non-work-related disease or injury.</p>
<b>Benefit</b>	<p>Where absence from work is a result of an employment injury or occupational disease, the employer is liable for compensation in terms of full wages for up to six months.</p> <p>NSSF benefits are available for temporary loss of working capacity and for permanent disability.</p> <p><b>Temporary loss of working capacity</b></p> <p>In case of employment injury or occupational disease, benefits are payable for up to six months (after the period covered by the employer) at 70 per cent of the average insured wage or salary over the previous six months. This benefit can be extended for an additional six months at 60 per cent of wages if the health condition is expected to improve. If the health condition is not expected to improve, the worker becomes eligible for the permanent disability benefit.</p> <p>In case of non-work-related injury or disease, benefits are payable for up to six months at 60 per cent of the average insured wage or salary over the previous six months.</p> <p><b>Permanent disability</b></p> <p>Where disability is a result of employment injury or occupational disease, a monthly benefit is paid equal to the level of disability (1–100 per cent) multiplied by the average insured wage or salary over the previous six months. If the disabled person is working or retired, they receive 50 per cent of the disability benefit. If the level of disability is 40 per cent or less, the benefit is instead paid as a lump sum of 12 times the monthly wage or salary.</p> <p>In case of non-work-related disability, the disability benefit is equal to 90 per cent of the above calculation. The lump-sum benefit is equal to 10 times the monthly wage or salary.</p> <p>Additionally, a caregiver benefit is available if the level disability is greater than 80 per cent, equal to 70 per cent of the disability benefit.</p>
<b>Qualifying conditions</b>	At least one month of contributions for employment injury and occupational diseases and at least 12 months of contributions for non-work-related disability.
<b>Financing</b>	The costs are borne by the employer or paid from employer social security contributions (0.5 per cent of wages) if the respective worker is an eligible member of the social security system.

## Maternity leave, maternity benefit and childbirth grant

<b>Legal framework</b>	The Labour Law (article 98) regulates maternity leave and stipulates a maternity benefit and lump-sum child birth grant (Article 99), which is further specified in the Social Security Law (articles 16–19) and the Regulation on the Implementation of the Social Security Law (Articles 16–19).
<b>Target group</b>	Maternity leave: female workers in the formal economy.  Maternity benefit: female social security contributors.  Lump-sum childbirth grant: female social security contributors and unemployed wives of social security contributors.
<b>Benefit</b>	<b>Maternity leave (Labour Law)</b>  Female workers in maternity are entitled to at least 105 days of paid leave with at least 42 days of such leave taken after giving birth. During this leave, the normal wage or salary is to be paid by the employer. In the event of a miscarriage, the duration of leave is determined by a doctor.  <b>Maternity benefit and birth grant (NSSF)</b>  After the period of maternity leave, social security members are eligible for a maternity benefit in case their health condition does not allow returning to work. The maternity benefit is provided for up to three months at 80 per cent of the insurable salary, after which the female worker transitions to the NSSF sickness benefit or disability benefit if medically necessary.  A lump-sum birth grant equal to 60 per cent of the average insurable wage during the last six months is available to insured female workers or unemployed wives of insured workers, upon giving birth or on miscarriage.
<b>Qualifying conditions</b>	Maternity leave: no conditions.  Maternity benefit and lump-sum childbirth grant: more than six months of contributions to the social security fund.
<b>Financing</b>	Maternity leave: employer liability.  Maternity benefit and lump-sum child birth grant: social security contributions.

## Survivors' benefit and death grant

<b>Definition</b>	Survivors' benefit is payable to dependents of insured workers and dependents of social security pensioners in case of their death.
<b>Legal framework</b>	Social Security Law (articles 37–43) and Regulation on the Implementation of the Social Security Law (articles 37–43).
<b>Target group</b>	Dependents of NSSF contributors and dependents of old-age and disability pensioners

<b>Benefit</b>	<p><b>Survivors' benefit</b></p> <ul style="list-style-type: none"><li>• The monthly survivors' benefit is payable to the following claimants:</li><li>• widow(er) of the deceased who has reached 60 years of age (50 years for women) or is disabled, has no regular income and has not re-married;</li><li>• children, step-children and adopted children of the deceased who have not reached 18 years of age, are single and not working; children who are disabled and unable to work receive a life-long survivors' benefit; and</li><li>• parents of the deceased who have reached 60 or 50 years of age, if they have no income and the deceased was their breadwinner.</li></ul>
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The monthly survivors' benefit is calculated as a percentage of a reference amount equal to the last insurable earnings, old-age pension or disability pension:

- widow(er) of the deceased receives 30 per cent of the reference amount;
- children, step-children and adopted children of the deceased, each child receives 20 per cent of the reference amount, but no more than 60 per cent for all children combined;
- parents of the deceased each receive 30 per cent of the reference amount, but not more than 50 per cent combined; and
- the combined amount received by all beneficiaries shall not exceed 80 per cent of the reference amount.

### Death grant

The death grant is a one-time payment, and consists of a funeral grant and a family grant. The funeral grant is payable upon death of insured workers, old-age pensioners and disability pensioners, as well as on death of their spouse or child younger than 18 years:

- death of the social security contributor or beneficiary, 12 months' salary or pensions shall be paid;
- death of a spouse, six months' salary or pensions shall be paid; and
- death of a child, three months' salary or pensions shall be paid.

The family grant is payable upon death of insured workers, old-age pensioners and disability pensioners. The amount is equal to a multiple of the monthly salary or pensions, calculated according to the following rules:

- between three and 12 months of contributions: five months;
- for each additional year of contributions up to six years: one additional month; and
- for each two additional years of contributions: one additional month.

<b>Qualifying conditions</b>	The survivors' benefit is payable after at least five years of contributions. The death grant is payable after at least three months of contributions.
<b>Financing</b>	Social security contributions.

### Social protection for informal economy workers

Workers outside the formal economy are eligible to join the contributory social security scheme under the NSSF on a voluntary basis, with the benefit package excluding the work injury and unemployment benefits. The number of registered voluntary members is still very low, however, and coverage expansion remains a challenge.

Other social protection schemes benefiting the informal economy include programmes in community-based health insurance (see section 4.2, below) along with a number of initiatives on skills development and poverty reduction that provide certain social protection functions.

### Scholarships for technical and vocational education and training (TVET)

<b>MOES scholarships</b>	<p>The MOES strategic policy of providing scholarships aims to increase enrolment and access to TVET courses. Currently, needs-based TVET scholarships are provided to a limited number of students, with donor activities supplementing the MOES scheme. The MOES provides needs-based scholarships for a number of students in TVET, which consist of a stipend for living costs of LAK250,000 per month, but do not cover tuition or cost of learning materials. The scholarship programmes serve a dual function of enabling access to education for disadvantaged students and increasing the attractiveness of, and overall enrolment in, vocational education, since less than 7 per cent of students studying at the vocational and college level choose vocational education.</p> <p>In higher education, there are currently no comparable scholarship programmes. Instead, the Government provides a tuition-free quota covering 20 per cent of students.</p>
<b>ADB strengthening TVET project</b>	<p>The project provides vouchers for TVET to students from poor families. The voucher scheme is available to students in four technical fields with high labour market demand, at nine participating educational institutions.</p> <p>The vouchers provide access to the following: (1) a cash stipend of LAK400,000 per month to cover living costs; (2) tuition fees, paid directly to schools; and (3) cost of learning materials. The overall cost of the benefits is about \$800 per year per student.</p> <p>As of March 2015, according to ADB data, 4,154 students had received vouchers out of a project target of 4,800.</p>
<b>GIZ/SDC Inclusive Access Fund</b>	<p>The Inclusive Access Fund under the German Agency for International Cooperation (GIZ)/SDC Vocational Education in Lao PDR (VELA) project is a new €4.8 million (\$5.3 million) fund that aims to provide TVET scholarships to 8,750 students.</p>

It targets students who have not completed lower secondary school and who are from poor households as well as those who live in remote areas, people with disabilities, ethnic communities, orphans, victims of human trafficking or sexual violence, and women. Benefit composition and levels have yet to be finalized.

## Poverty Reduction Fund (PRF)

**Programme background** The PRF is Lao PDR's largest multi-sectoral rural poverty reduction programme. It provides grant assistance to communities in the poorest districts to plan and implement development projects, with a focus on basic infrastructure, services and productive assets.

The PRF is a financially autonomous organization within the Government's Office, and is overseen by an inter-ministerial, high-level Administrative Board.

The PRF does not directly provide income security to beneficiaries, as community members are not paid for their labour contributions to the implemented projects. However, the funded sub-projects are intended to support livelihood security through income-generating activities or improved access to markets.

**Legal framework** The PRF was established under Prime Ministerial Decree 073/PM in 2002. Prime Ministerial Decree No. 10/PM (10 January 2012) reformed PRF organization according to its current structure.

**Target group** Communities in targeted poor districts.

**Benefit** Funding and technical assistance is provided for small-scale community infrastructure projects such as water and sanitation, education, health, agriculture, public works and transportation. Entering its second phase in 2012, the PRF attempts to fill a critical gap by financing investments that facilitate access to basic services and markets in remote and inaccessible areas. The project provides *koum ban*, i.e. village cluster level, development grants of \$30,000 to \$50,000 per year (depending on population size) for four rounds over four years. Projects are identified through a village and *koum ban*-level participatory planning process and capacity building.

During PRF Phase I, 2,185 communities implemented 3,179 sub-projects including schools, health dispensaries, water supply points, bridges, roads, irrigation schemes, community fish ponds and community forestry groups.

<b>Financing</b>	Funded by the Government, the World Bank, the Swiss Agency for Development and Cooperation (SDC), the Australian Agency for International Development (AusAID). The budget amounted to over \$42 million in Phase I, with US\$68.3 million planned for the subsequent Phase II (2012–16).
<b>Coverage</b>	At the time of this writing, according to PRF data the PRF funded projects in a total of 274 <i>koum ban</i> in 44 districts in 10 provinces, benefiting as many as 474,660 people.

### Livelihood opportunities and nutritional gains (PRF-LONG)

<b>Programme background</b>	<p>PRF Phase II includes a pilot component on livelihoods and nutrition (LONG), which uses a group-based mechanism to improve food security through income-generating activities and direct nutritional interventions.</p> <p>LONG follows a dual approach: (1) supporting village self-help groups (SHG) as a mechanism for income-generating activities; and (2) direct nutritional measures for mothers and young children.</p> <p>SHGs receive training in income-generating activities, for which funding is provided through members' savings and direct project grants.</p> <p>Direct nutritional measures are implemented through Village Nutrition Centres, which provide midday meals, childcare, nutrition education, support for creation of home gardens, and serve as a contact point for MCH services. Funding issues, as of this writing, had reduced midday meals to three days per week.</p>
<b>Financing</b>	Donor financed: \$2.6 million World Bank grant under the Japan Social Development Fund (JSDF).
<b>Coverage</b>	During the pilot phase, LONG operated in 85 villages in four districts, establishing 306 SHGs with 4,404 members (3,286 of which were women); and 15 Village Nutrition Centres covering 429 mothers and children. <sup>44</sup>

<sup>44</sup> Poverty Reduction Fund: *PRF-LONG progress report June 2015* (Government's Office, Vientiane, 2015).



#### 4.4.2 Summary of prevailing provisions for people of working age

Scheme/benefit	Target group	Coverage
<b>NSSF:</b> <ul style="list-style-type: none"> <li>• unemployment benefit,</li> <li>• sickness benefit,</li> <li>• employment injury,</li> </ul> <b>occupational disease and non-work-related disability benefit,</b> <ul style="list-style-type: none"> <li>• maternity benefit,</li> <li>• childbirth grant</li> <li>• survivor's benefit</li> <li>• death grant</li> </ul>	<ul style="list-style-type: none"> <li>- formal economy workers</li> <li>- public sector workers</li> <li>- voluntary self-employed and informal members</li> </ul>	14.5% of population including dependents (2014): <ul style="list-style-type: none"> <li>• private sector: 2.4% (14% of target population)</li> <li>• public sector: 12.1% (97% of target population)</li> <li>• voluntary &lt;0.1%</li> </ul>
<b>Under Labour Law:</b> <ul style="list-style-type: none"> <li>• severance pay</li> <li>• paid sick leave</li> <li>• paid maternity leave.</li> </ul>	Formal economy workers.	Incomplete. Lack of compliance of employers.
<b>TVET scholarships.</b>	Students from poor and disadvantaged families.	(MOES) 4,154 (ADB project).
<b>PRF</b> <ul style="list-style-type: none"> <li>• livelihood support and essential social services through community asset creation.</li> </ul>	Communities in poorest districts.	474,660 (population of target districts).
<b>Village Nutrition Centres (PRF-LONG)</b> <ul style="list-style-type: none"> <li>• midday meals, childcare and nutrition education.</li> </ul>	Women in maternity and young children in poor villages.	429 centres.

#### 4.4.3 Policy gaps and implementation issues

<b>Compliance problems in the formal economy</b>	The NSSF offers a comprehensive benefit package to employees in the public and formal private sectors. Severe compliance problems remain, however. If the enforcement mechanisms were strengthened, total NSSF coverage could increase by about 250,000 people (or 4 per cent of the total population).
<b>Lack of social security for the informal economy</b>	Although the national social security fund accepts voluntary informal and self-employed workers, membership remains very low. The benefits and modalities mainly cater to the needs of formal economy workers
<b>Lack of income protection for rural and agricultural workers</b>	Seasonal lack of work or income is widespread among rural workers and small-scale farmers, leading to cycles of food and income insecurity. Policies to address this group with respect to such matters as such as public works or training have not yet been fully developed.
<b>Enforcement in the formal economy</b>	Social security for formal economy workers still faces substantial challenges in enforcement. Despite its compulsory nature, social security for enterprises still covers only a small proportion of the target population.
<b>No regular social welfare benefits</b>	No systemic social welfare cash benefits are currently available for the poor or people who lack working capacity, such as people with disabilities.

#### 4.4.4 Policy recommendations

##### Formal economy

**Recommendation 1.** Address low NSSF coverage in the private sector and non-compliance of companies with Labour Law benefits (e.g. maternity leave). Identify main reasons for non-compliance, improve workers' and employers' awareness on social security. Invest in and implement such enforcement mechanisms as the following:

- periodical inspections at enterprises registered with the Ministry of Commerce and Industry; and
- legal provisions allowing penalties to be levied from non-compliant employers.

##### Informal economy

In establishing a SPF for the informal economy, two distinct target groups should be considered:

- **Individuals or households who may experience temporary or seasonal food insecurity or income insecurity due to lack of regular employment opportunities or the seasonal nature of agricultural production.** Many of these households have spare labour capacity (throughout the year or in low seasons), but lack income-earning opportunities in rural areas.
- **Individuals or households who lack sufficient working capacity.** This may include people with disabilities, orphans, the elderly, single parents, those suffering sickness or injury and those in maternity, as well as cases where household heads have died.

Social protection schemes should address the different needs of these two groups through distinct and appropriate policies:

## Recommendation 2.

- Ensure employment and income security for unemployed and underemployed informal economy workers, in particular seasonal and agricultural workers.

The MOLSW strategic plan for Social Welfare already recommends for this target group the following:

- o Create a public works programme with an on-the-job training component to improve workers' skills and employability. Public works programmes can support the construction or maintenance of essential infrastructure in poor villages, and could be linked with PRF projects.
- o Establish village savings groups; provide training in income generation and food production.

The feasibility of implementing these proposals should be further explored.

**Recommendation 3.** Provide cash benefits for people in the informal and agricultural sectors who are not insured under NSSF to provide basic income security in situations of inability to earn sufficient income. This might include benefits such as on disability, maternity, sickness and work injury.

## 4.5 Social protection schemes for people in old age



People in old age enjoy basic income security, at least at a nationally defined minimum level.

(SPF definition)

### 4.5.1 Existing provisions

Only a small minority of the population is covered by old-age pensions, virtually all of them in the formal economy. Pension benefits are provided within the contributory social security system under the recently established National Social Security Fund (NSSF). Membership is compulsory for civil servants and formal economy workers, however, due to severe compliance problems effective coverage in the formal economy is estimated at only 14 per cent. Although the NSSF accepts voluntary membership of self-employed and informal economy workers, the number of members in this category remains negligibly low. As of this writing, no social assistance pensions were available. As a result, people outside the formal economy and without NSSF membership were left without pension coverage in old age.

## Old-age pension for formal private sector workers (NSSF)

<b>Legal framework</b>	The Social Security Law of 2013 (articles 31–36) and the corresponding Regulation on the Implementation of the Social Security Law, 2014 (articles 31–36).
<b>Benefits</b>	<p>The pension amount is calculated according to the expected average insured earnings of all contributors multiplied by individual pension points, multiplied by an index of 2 per cent as assigned by regulation. Pension benefits are not to exceed 75 per cent of the average wage of all contributors.</p> <p>Pension points are accrued for each year of contributions as the ratio of the personal insured earnings for each year to the average insured earnings of all contributors. Periods of receiving a social security benefit for sickness, maternity or temporary disability are also applicable towards accruing pension points. If the total working period is less than 30 years, each year less than 30 years is counted as half a point.</p> <p>Where the qualifying conditions (see below) are not met, the pension is converted into a lump-sum benefit of 1.5 times the average insured monthly earnings for each year of work.</p> <p>Pension amounts of existing pensioners are adjusted to meet the minimum specified by the new legislation (Social Security Law of 2013).</p>
<b>Qualifying conditions</b>	<p>The pension age is set at 60 years for men and 55 for women, with a minimum working period of 25 years and minimum contribution period of 15 years. The pension age and minimum working period can be reduced by five years given disability type 1 to 4 (more than 50 per cent disabled), or given five years of continuous work in hazardous environments. Early retirement for health reasons is possible by up to three years if the worker has made at least 25 years of contributions. In such cases, pensions are reduced by 1 per cent for each year of early retirement.</p> <p>To align with previous legislation, the minimum contribution period for workers who were insured before the current law entered into force remains set at five years.</p>
<b>Coverage</b>	<p>Due to the relatively young age of the private sector, scheme coverage remains low (as of this writing, 0.23 per cent of that population is of pensionable age).</p> <p>Private sector pension recipients (August 2015): 1,187.</p>
<b>Financing and financial status</b>	Pensions are paid from NSSF contributions by employers and employees. An ongoing actuarial evaluation indicates that, while the current fund reserves are in solid financial health, current contribution and pension levels might not be financially sustainable in the long term.

## Old-age pension for civil servants, military and police (NSSF)

<b>Legal framework</b>	The Social Security Law of 2013 (articles 31–36) and the Regulation on the Implementation of the Social Security Law (articles 31–36).
<b>Benefits</b>	<p>The pension amount is calculated as a percentage of the last insured salary. The percentage increases by one percentage point per year of work above the minimum required working period, and is capped at a ceiling according to the following criteria:</p> <ul style="list-style-type: none"><li>• those who joined the civil service before 1955: 80–100 per cent of last salary, with minimum 20 years of work;</li><li>• those who joined the civil service between 1955–74: 75–90 per cent of last salary, with minimum 20 years of work; and</li><li>• those who joined the civil service after 1974: 70–85 per cent of last salary, with minimum 25 years of work.</li></ul> <p>Where these criteria are not met, the pension is converted into a lump-sum benefit of 1.5 months of average insured earnings over the previous six months multiplied by the number of years of work.</p>
<b>Qualifying conditions</b>	The pension age is set at 60 years for men and 55 for women, with a minimum working period of 25 years. The pension age and minimum working period is reduced by five years in case the employee began working before 1975, in case of disability type 1 to 4 (more than 50 per cent disabled), or in case of five years of continuous work in hazardous environments. Early retirement for health reasons is possible by up to three years if the worker has made at least 25 years of contributions. In such cases, pensions are reduced by 1 per cent for each year of early retirement.
<b>Coverage</b>	<p>Coverage as percentage of pension age population: 4.96 per cent.</p> <p>Public sector pension recipients (August 2015): 25,440.</p>
<b>Financing and financial status</b>	<p>The civil servant social security scheme under NSSF (formerly SASS) is currently a pay-as-you-go system without accumulated reserves. In the initial design of the programme, contributions were supposed to be allocated into off-budget reserve funds. However, the government/employer contributions are currently only provided in accordance with expenditure needs for benefit payments for each year. All contributions are used for benefit payments of the respective year.</p> <p>Pension benefits were increased with the 2013 Social Security Law. An actuarial valuation is currently ongoing, at the time of this writing, and indicates that the system is unsustainable at the current contribution rates. With current rates, government subsidies will be needed in the near term to finance benefit payments.</p>

## Special Pension benefit for revolutionary veterans

Revolutionary veterans, national heroes and fighters in the revolutionary war are entitled to receive special benefits. These benefits are stipulated in Prime Ministerial Decrees No. 241 and 343 of 2007 on privileges extended toward persons with outstanding performance and good contributions to national revolutionary tasks.

## Summary of existing provisions for people in old age

Scheme/benefit	Target group	Coverage
Old-age pensions under NSSF.	Compulsory coverage of formal private sector and public sector employees, voluntary coverage of self-employed and informal workers.	Private sector: 1,187 pensioners. Public sector: 25,440 pensioners. Total: 5.2 per cent of pension age population.

### 4.5.2 Policy gaps and implementation issues

#### Financial sustainability of formal pensions

The public sector old-age pension is a pay-as-you-go scheme without reserves. This situation threatens the financial sustainability of the programme. An ongoing actuarial review indicates that, with current pension and contribution rates, either budget subsidies from the general government budget or de facto subsidization by way of the SSO reserves will become necessary in coming years. As the Government continues to merge the public sector (former SASS) with the private sector (former SSO) scheme, which has a healthier reserve system under the NSSF, the risks associated with the lack of reserves will spread throughout and threaten the financial sustainability of the newly merged social security system.

#### Lack of pensions in the informal economy

Pensions for (former) workers in the informal economy, including agricultural workers, are non-existent. Only 5.2 per cent of people in retirement age enjoy basic income security through a pension, the large majority of which are former public sector employees.

### 4.5.3 Policy recommendations

**Recommendation 1.** Create a non-contributory minimum social pension for elderly people who are not covered by the formal social security system.

**Recommendation 2.** Provide non-cash benefits such as free health care for the elderly. Explore different targeting options, e.g. targeting all elderly without formal pensions or targeting only the most vulnerable elderly, those who are in poverty, without family support or have a disability.

**Recommendation 3.** Ensure solid actuarial design and sufficient fund reserves before merging the SASS and SSO schemes, aiming to ensure sustainable financial state for the overall pension programme and to protect the SSO reserve fund, which was accumulated by contributions from employers and workers in the private sector and explicitly designated to ensure the long-term financial sustainability of private sector pensions.

## 4.6 Summary and policy recommendations

### 4.6.1 Summary of the diagnostic analysis of the social protection system

Despite the robust economic growth of the previous decade, Lao PDR still experiences the relatively high poverty rate of about 30 per cent of the population (applying the international poverty line of international \$1.90 PPP per day).

This is the most aggregated indicator of the gap in coverage and protection of the prevailing social protection system. Each person who remains poor even after intervention by the social protection system represents a failure of the system. According to estimates in the ILO *World social protection report 2014/15*,<sup>45</sup> the social protection expenditure then stood at about 1.7 per cent of GDP. That included all government spending on health and NSSF benefit pay-outs, as well as social welfare and administratively related programmes such as clearance of unexploded ordnance (UXO). A modest package of policies for a basic SPF would require additional resources on the order of 1.8 per cent of GDP, including those allocated to social health protection (see chapter 5).

Some increase in population coverage might be possible through the extension of contribution-financed social protection systems, but, for the near future, most of the coverage extension has to be financed from general government revenues. The bulk of additional resources will likely have to come from central government revenues, i.e. increased revenues from direct and indirect taxation either through improving the tax collection, increasing the tax base or tax rates, or re-allocating existing expenditure.

Still, given the overall fiscal deficit in 2016 of an estimated 5.1 per cent of GDP, closing the SPF gap will require focusing on a small, select number of social protection priorities and developing an intelligent timeline to complete a basic social protection system. This presents a challenging exercise, one requiring both Government and international partners to concentrate resources in a few robust programmes aligned with strategic priorities, at the same time avoiding fragmentation of the policy and implementation agenda due to competing priorities.

The priorities suggested by this assessment include allocating budget funding for subsidizing social protection for the informal economy and the poor who are unable to contribute, and focusing on the social protection needs of the elderly and children, guaranteeing access to a minimum of basic goods and services including nutrition, health, education and care. This can be accomplished by complementing the existing contributory social security schemes with non-contributory social assistance provisions. Currently, no social welfare/assistance programmes provide long-term regular cash benefits to the poor and vulnerable. The need remains for discussion and planning with regard to the potential introduction of (legally defined) cash entitlements, which could form an integral part of the wider social protection system and fill a crucial SPF gap.

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<sup>45</sup> Op. cit.

#### 4.6.2 List of policy recommendations

The ABND process was conducted upon the assumption that its recommendations would contribute significantly to the elaboration of the National Social Protection Strategy. Indeed, it was expected that these discussions would somehow represent a preparatory phase in this process.



Following the publication of this report, the next step should be initiation of concrete measures to realize the National Social Protection Strategy.

As suggested earlier, the above fiscal considerations show that these recommendations should be understood as a compilation of policy measures that need initial feasibility tests followed by processes of selection and prioritization. The prioritization of available options should be based on an assessment of the needs of vulnerable population groups, while taking into account limited institutional capacity to implement new and complex social protection schemes.



The assessment-based national dialogue exercise provides three types of recommendation:

- **Type 1 – additional social protection provisions**, which are included in the costing exercise (see chapter 5);
- **Type 2 – structural reforms** of the social protection system, which will require additional in-depth studies; and
- **Type 3 – improved implementation** of existing schemes.

**Table 8. List of recommendations by type and SPF pillar**

	Type 1 – Additional SPF provisions	Type 2 – Structural reforms	Type 3 – Improved operations
 <b>Health</b>	<p>Extend coverage of HEF and MNCH nation-wide.</p> <p>Explore options for extending coverage of the uninsured population, through mandatory health insurance or subsidies aiming to reduce health expenditures.</p>	<p>Increase fiscal allocation for health and ensure long-term financial sustainability of SHP schemes.</p> <p>Further the integration of HEF, CBHI and MNCH schemes under NHIB and establish NHIB as an independent purchaser.</p>	<p>Review and harmonize HEF targeting criteria.</p> <p>Improve NSSF compliance in the private sector to extend mandatory health insurance coverage.</p>
 <b>Children</b>	<p>Introduce universal or targeted child support grant.</p> <p>Increase block grant level, and increase number of scholarships to provide free and equitable access to education.</p> <p>Expand school meals to all schools in disadvantaged districts.</p>	<p>When introducing child grants, create linkages with nutrition and health programmes.</p>	<p>Review and improve nutritional impact of school meals.</p>



	Type 1 – Additional SPF provisions	Type 2 – Structural reforms	Type 3 – Improved operations
 <b>Working age</b>	<p>Create cash benefits for people who are not insured under NSSF, in particular in maternity and disability.</p> <p>Establish public works programme to create employment and income-earning opportunities for seasonal and agricultural workers.</p>	<p>Introduce linkages between social protection (such as public works) and livelihood and skills measures.</p>	<p>Improve enforcement of private sector NSSF enrolment and employer compliance with Labour Law benefits.</p>
 <b>Elderly</b>	<p>Provide universal social pension.</p> <p>Provide non-cash benefits such as health care, housing, or clothing.</p>	<p>Ensure long-term sustainability of NSSF pensions.</p>	

### 4.6.3 General recommendations

**Recommendation 1 (Type 2).** Develop a coherent social protection policy framework and strategy encompassing appropriate social protection measures for all population groups, including the following: (1) social security for the formal economy and voluntary members; (2) social assistance/social welfare benefits, targeting the poor and vulnerable or universal for broader groups such as children and the elderly; (3) income-securing programmes for the informal economy, including public works, livelihood promotion and skills development; and (4) access to essential services including health, education and nutrition.

**Recommendation 2 (Type 2).** Establish a social welfare system providing regular cash benefits to the most vulnerable people who lack working capacity and who are not covered by the formal social security system. Review and implement related existing legislation, especially the Decree on Social Welfare No. 169/PM (2013), which defines regular routine social assistance (article 8.2), including cash benefits (article 9.1) and which defines beneficiary categories (article 7), including orphans, people with disabilities, the elderly, victims of trafficking and victims of disasters. Other related legislation includes the Decree on People with Disabilities No. 137/GOV (2014), which stipulates benefits for people with disabilities who are poor, homeless or old (article 33).

### 4.6.4 Recommendations: Social health protection

The main challenges identified in this report include mobilizing increased funding for the health sector, including for the expansion of MNCH and HEF; and, in light of the slow pace of expansion of the voluntary CBHI system, developing a feasible coverage model for the informal economy. Achieving faster expansion of voluntary health insurance by merely providing subsidies to contributions (as stipulated in Decree 470/PM) might prove difficult, as long as underlying issues of quality of care and institutional capacity and general adverse selection issues remain unresolved. Long-term alternatives should be explored, including mandatory social health insurance for the non-poor informal economy, with a degree of subsidization. This would present a considerable challenge,

but very few alternatives are systematically compatible with the emerging structure of the health financing system. One option worth considering would be a non-contributory scheme addressing catastrophic health costs, one which might be more realistic for the short and medium terms with respect to implementation capacity. Another solution could be to fully fund worker contributions in the informal economy, following a model closer to the system implemented in Thailand

This study acknowledges its limitations in fully exploring all available options to extend social health protection in Lao PDR. The adequacy and feasibility of the different options mentioned in this report (including the recommendations presented below) require further assessment beyond the scope of this study, including an assessment of the impact of models that have been tested in different geographical locations with the support of development partners.

At the time of this writing, and in parallel with the finalization of the ABND process, a group of more specifically health-sector stakeholders are holding discussions regarding health-funding policies, and these will likely influence future options regarding the extension of health social protection. The recommendations of this study thus need to be appreciated as only preliminary, proposed mainly for illustrative purposes.

**Recommendation 1 (Type 2).** Substantially increase overall health sector funding to improve quality of, and access to, health-care services at all levels, in line with the target of the Health Sector Reform Strategy (domestic government spending to be increased to 3–4 per cent of GDP by 2025).

**Recommendation 2 (Type 1).** Explore the gradual establishment and expansion of NHIB-managed national health protection mechanisms for the non-poor informal economy, using a model of subsidized contributions or subsidized flat treatment fees or some appropriate alternative model. One option that could complement the emerging structural coverage pattern of the health sector would be the gradual introduction of a NHIB-managed, mandatory subsidized health insurance scheme. However, any mandatory insurance scheme would face challenges of enforcement and institutional capacity. As regards subsidization, whether full or partial, the impact of different options needs further assessment. A non-contributory scheme addressing catastrophic health costs for the uninsured population might be an alternative worth considering, especially in the short and medium terms.

With all the various scenarios, social health protection policy options must prove consistent with policy options concerning the supply side, which goes beyond the scope of this study.

**Recommendation 3 (Type 2).** Work towards a harmonized national system of health coverage, applying schemes appropriate to target groups:

- introduce a unified benefit package including equally high-quality care for all;
- develop a national health budget across all financing systems, providing a national financial planning and management tool for the MOH; and
- ensure financial sustainability through legally defined contributions to the overall national health budget from the non-poor, formal and public sector, and the Government.

**Recommendation 3a (Type 1).** Pursue the national extension of free MNCH and free care to the poor under HEFs in all districts, ensuring a more sustainable and systemic funding mechanism under government purview and with implementation based on nationally harmonized regulations.

**Recommendation 3b (Type 3).** For HEF projects, review and harmonize targeting criteria defined in national regulations.

**Recommendation 3c (Type 3).** Increase de facto NSSF coverage in the private sector by investing in and implementing enforcement mechanisms, including the following:

- conduct periodic inspections at enterprises registered with the Ministry of Commerce and Industry; and
- introduce legal provisions allowing penalties to be levied from non-compliant employers.

**Recommendation 4 (Type 2).** Ensure institutional and budgetary NHIB independence. Review NHIB institutional, coverage and governance (oversight and complaints mechanisms) and budgetary arrangements in line with international standards.

#### 4.6.5 Recommendations: Children

The overall conclusion is that the SPF for children has yet to be achieved. Children in poor families and in disadvantaged groups and regions in particular often do not have equitable and reliable access to nutrition, education, care and other essential goods and services.

Given that 35 per cent of the Lao population is younger than 15 years old, this group should receive increased attention in future social protection policy development. Child-focused social protection constitutes an investment in the country's economic and social future through reduced childhood poverty and improved education, health and nutrition.

**Recommendation 1 (Type 1).** Introduce a child cash grant to address child nutrition security, child poverty, and to stimulate human capital investment in early childhood. A child cash grant would support and enhance the objectives of many of the existing schemes in nutrition, education and health, and provide a minimum of income security for families with young children in accordance with the SPF. The following options can be considered: (1) a universal child grant to ensure a basic level of income security for all families with young children; (2) a poverty-targeted child grant; and (3) a conditional cash transfer (CCT) scheme, providing cash benefits to poor families conditional on their use of child nutrition and health services.<sup>46</sup>

**Recommendation 2 (Type 1).** Increase and protect block grant budget allocations to schools to achieve free education at all levels. Improve administration for timely provision of funding to schools.

**Recommendation 3 (Type 1).** Expand scholarship programmes for secondary schools, focusing on students from poor families and vulnerable groups such as students with disabilities and female students from ethnic groups.

**Recommendation 4 (Type 1).** Extend the coverage of the school meals programme to all students in primary and pre-primary education in educationally and nutritionally disadvantaged districts. Review adequacy of current model to ensure sufficient nutrition security for students.

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<sup>46</sup> For all options, linkages with nutrition, health or education interventions should be explored, building on experience of existing child nutrition and health programmes, e.g. the Village Nutrition Centres under the PRF-LONG project and the Integrated Health and Nutrition outreach activities of Lao Women's Union under the EU-UNICEF project, as well as previous ADB and World Bank CCT pilots.

#### 4.6.6 Recommendations: Working age

##### Formal economy

**Recommendation 1 (Type 3).** Address low NSSF coverage in the private sector and company non-compliance with Labour Law benefits (e.g. maternity leave). Identify main reasons for non-compliance, improve workers' and employers' awareness of social security. Invest in and implement enforcement mechanisms, including the following:

- conduct periodic inspections at enterprises registered with the Ministry of Commerce and Industry; and
- introduce legal provisions allowing penalties to be levied from non-compliant employers.

##### Informal economy

To provide a SPF for the informal economy, two distinct target groups should be considered:

- Individuals or households who may experience temporary or seasonal food insecurity or income insecurity due to lack of regular employment opportunities or the seasonal nature of agricultural production. Many of these households have spare labour capacity (throughout the year or in low seasons), but lack income-earning opportunities in rural areas.
- Individuals or households who lack sufficient working capacity. This may include people with disabilities, orphans, the elderly and single parents, as well as those suffering sickness or injury or in maternity or where the household head has died.

Social protection schemes should address dedicated policies to the different needs of these two groups, applying the following recommendations.

##### **Recommendation 2 (Type 1).**

- Ensure employment and income security for unemployed and underemployed informal economy workers, in particular seasonal and agricultural workers.

The MOLSW strategic plan for Social Welfare already recommends the following measures for this target group:

- Create a public works programme with an on-the-job training component to improve worker skills and employability. Public works programmes can support the construction or maintenance of essential infrastructure in poor villages, and may be linked with PRF projects.
- Establish village savings groups, provide training on income generation and food production.

The feasibility of implementing these proposals should be further explored.

##### **Recommendation 3 (Type 1).**

- Provide cash benefits for people in the informal economy and agricultural sector who are not insured under the NSSF, providing basic income security in situations of inability to earn sufficient income. This might include benefits extended in cases of disability, maternity, sickness or work injury.



#### 4.6.7 Recommendations: Old age



**Recommendation 1 (Type 1).** Create a non-contributory minimum social pension for elderly people not covered by the formal social security system.

**Recommendation 2 (Type 1).** Provide such non-cash benefits for the elderly as free healthcare, housing or clothing. Explore different targeting options, e.g. targeting all elderly without formal pensions or targeting only the most vulnerable elderly, who are in poverty, without family support or have a disability.

**Recommendation 3 (Type 3).** Before merging the SASS and SSO schemes, ensure solid actuarial design and sufficient reserve funds to ensure a sustainable financial state in the overall pension programme and protect the financial health of the SSO reserve fund, which was accumulated by contributions of employers and workers in the private sector and explicitly designated to ensure the long-term financial sustainability of private sector pensions.

#### 4.6.8 Summary assessment matrix

	Legal coverage	Actual coverage	Main gaps	Recommendations
 <b>Health</b>	Formal economy (NSSF), informal economy (CBHI), the poor (HEF), maternity and children (MNCH).	Full coverage in public sector, partial for formal private sector, the poor, maternity, children, very low in informal economy.	<ul style="list-style-type: none"> <li>• Lack of health sector funding.</li> <li>• Lack of informal economy coverage.</li> <li>• Incomplete coverage of other schemes.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase budget allocation for health.</li> <li>• Expand coverage in informal economy.</li> <li>• Expand HEF and MNCH coverage.</li> </ul>
 <b>Children</b>	Free primary education for all, school meals for students in disadvantaged districts.	Abolishment of primary school fees not yet achieved.	<ul style="list-style-type: none"> <li>• Lack of nutrition and income security for children, inequitable access to education.</li> <li>• Insufficient funding for school block grants and scholarships.</li> </ul>	<ul style="list-style-type: none"> <li>• Address gap in nutrition through child benefit, linked to nutrition, health measures and education.</li> <li>• Increase block grant funding and provision of scholarships.</li> <li>• Expand school meals programme and review nutritional impact.</li> </ul>

	Legal coverage	Actual coverage	Main gaps	Recommendations
 <p><b>Working age</b></p>	Social security in formal economy, voluntary membership in informal economy.	Incomplete in formal economy, virtually none in informal economy.	<ul style="list-style-type: none"> <li>• Very low social security coverage in informal economy.</li> <li>• Only partial coverage in formal private sector</li> <li>• No basic income security for informal workers and those unable to work.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve enforcement of SSO membership.</li> <li>• Consider subsidizing voluntary social security membership.</li> <li>• Public works for agricultural and seasonal workers.</li> <li>• Social welfare benefits for those unable to work.</li> </ul>
 <p><b>Elderly</b></p>	Formal economy, voluntary membership in informal economy.	Incomplete in formal economy, virtually none in informal economy.	<ul style="list-style-type: none"> <li>• No basic income security for people outside the formal social security system.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide benefits to the elderly, such as a minimum social pension, free health care or housing support.</li> <li>• Ensure financial sustainability through solid actuarial design of SASS pensions, and protect the SSO pension fund.</li> </ul>

## 4.7 Choice of priority recommendations by the Secretariat of the Drafting Committee

The full list of recommendations provides a comprehensive overview of the policies needed to close the identified gaps in the social protection system and establish a SPF for all Lao PDR residents. But fiscal and implementation capacity constraints mean design of a feasible package of policies for implementation requires prioritizing recommended policies.

In December 2015, the Secretariat of the Drafting Committee for the National Social Protection Strategy met to prioritize the policy recommendations.

### 4.7.1 Regular cash benefits (social welfare)

In particular, the Secretariat endorsed the following:

**Working-age recommendation 3.** Provide cash benefits for people in the informal economy and agricultural sector who are not insured under the NSSF, for example benefits extended in cases of disability, maternity, sickness or work injury.

**Old-age recommendation 1.** Create a non-contributory minimum social pension for elderly people not covered by the formal social security system. Explore different targeting options, e.g. targeting all elderly without formal pensions or targeting only the most vulnerable elderly, who are in poverty, without family support or have a disability.

The Secretariat supports the extension of social protection coverage to the informal and rural economies through the introduction of cash benefits for people uncovered by the formal economy social security scheme (NSSF). In contrast to the contribution-financed benefits of the NSSF, these new benefits would be financed from general government revenues. In particular, the Secretariat proposed the following:

- **A social pension for elderly who lack pension coverage through NSSF.** The social pension would guarantee a minimum pension to all elderly above a certain age.
- **A disability benefit for people with disabilities who are not NSSF members.**
- **A maternity benefit or birth grant for women outside the formal economy who do not benefit from maternity leave or the birth grant under NSSF.** This benefit could be extended to cover young children in the form of a child benefit or family allowance.

Specific policy parameters for the social pension such as benefit amounts and eligibility age have yet to be determined. Further discussion and research is needed to develop a basis for calculating benefit amounts, including a mechanism for future adjustments based on such indicators as inflation, average wage increases or GDP growth.

### 4.7.2 Other priority recommendations

Besides the proposed cash benefits, the Secretariat meeting voiced support for the following priority recommendations:

**Working age recommendation 1.** Address low NSSF coverage in the private sector and company non-compliance with Labour Law benefits (e.g. maternity leave). Identify main reasons for non-compliance, improve workers' and employers' awareness of social security. Invest in and implement enforcement mechanisms, including the following:

- o conduct periodic inspections at enterprises registered with the Ministry of Commerce and Industry; and
  - o introduce legal provisions allowing penalties to be levied from non-compliant employers.
- **Health recommendation 3a.** Pursue the national extension of free MNCH and free care to the poor under HEFs in all districts, ensuring more sustainable and systemic funding mechanisms under government purview and implementation based on nationally harmonized regulations.





## 5. Costing of policy recommendations

This section presents cost projections for some of the policy recommendations presented above. The costing is limited to policy recommendations that entail major additional costs, for example the establishment of new schemes or expansion of existing schemes (type 1 recommendations, see table 8, section 4.6.2, above), while excluding recommendations of a more qualitative nature, such as those related to structural reforms and improved operations (type 2 and type 3 recommendations).

### Benefit amounts

The benefit amounts applied in the scenarios regarding children, working age people and the elderly are low, thereby reflecting the limited available fiscal resources. This costing assumes that a standard benefit amount would be paid to recipients of cash benefits in different categories (social pension, maternity benefit, disability benefit). For especially vulnerable groups such as people with very severe disabilities, children with disabilities or elderly with disabilities or without family support, a higher benefit multiplier might be applied so that these groups could receive, for example, 2.0 times the standard benefit amount.

The standard benefit amount is defined as 50 per cent of the poverty line income derived from the LECS 5 household survey (LAK101,807 per month in 2013), and this increases annually at the same rate as the growth of average wages in the country. The costing also includes a comparison with benefit levels starting at 100 per cent of the 2013 poverty line.

### Standard benefit amount in kip per month

	2017	2020	2025	2030
Benefit at half of poverty line	135 000	170 000	252 000	377 000
Annual increase (wage inflation, %)	6.2	8.2	8.2	8.3

This benefit amount remains very low, and is less than the line of extreme poverty at international \$1.25 PPP per day. It is also very low both in comparison to benefits under the formal economy social security system (NSSF), and to the national minimum wage (amounting to about 15 per cent of the minimum).

## 5.1 Health<sup>47</sup>

The main conclusion of the assessment regarding health is that the SPF remains incomplete. Recommendations include expanding the existing non-contributory health protection schemes for the poor (HEF) and for mothers and children (MNCH) to all districts nation-wide, and creating a compulsory scheme covering the uninsured population. Non-contributory coverage for the uninsured elderly is also proposed. These recommendations may be translated into the following scenarios:

**Scenario 1.** Expansion of MNCH and HEF to the entire eligible population nation-wide

**Scenario 2.** Coverage of the uninsured population through the following measures:

- subsidized health insurance for the uninsured (Decree 470/PM); and
- universal coverage with co-payments.

**Scenario 3.** Free coverage of uninsured elderly and people with disabilities.

**Note.** To estimate the per capita cost of the proposed social health protection schemes, the authors have assumed that these schemes should fully cover the current private OOP spending by patients, i.e. the per capita cost of coverage is equal to OOP spending plus administrative costs.<sup>48</sup> Although the actual costs of existing schemes are substantially lower,<sup>49</sup> this higher baseline was chosen to present a cost estimate for providing health coverage that meets the SPF criteria, ensuring access to quality and affordable health care for all. As discussed in this report (section 3.1, above), meeting these criteria will require strong improvements in quality and availability, supported by significantly higher funding for health facilities and the health sector in general. Again, it should be noted these are preliminary estimations mainly for illustrative purposes. Further assessments of a more comprehensive nature are requested.

### Scenario 1: Expansion of MNCH and HEF to the entire eligible population nation-wide

#### Assumptions

- **Per capita cost (HEF and FCU5).** The per capita cost of coverage is assumed to equal prevailing OOP payments. It is also assumed the utilization rate remains constant during the brief projection period. Based on a 2013 per capita health expenditure estimate (WHO National Health Accounts), which was adjusted to 2016, the per capita cost of coverage extension amounts to an estimated LAK153,000 per annum.
- **Per capita cost free maternity.** In contrast to the other health schemes, here an estimate of actual unit costs of the medical package is applied. Maternity coverage refers to a specific package of medical services including delivery and, as such, does not constitute full coverage comparable to the other schemes.

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<sup>47</sup> The costing does not take into account the significant increases in supply-side funding for the health sector required in response to increased health coverage. Extending health coverage will lower financial barriers to accessing health care and unlock suppressed demand leading to greater use of health services. Under the current health financing system, health facility revenues from user fees and social health protection schemes aims to cover variable treatment costs (and, partially, staff incentives). Any rapid increase in use will incur additional staff and investment costs to build additional service capacity.

<sup>48</sup> That is with the exception of maternity coverage under the free MNCH scheme, for which actual historic costs have been applied. Maternity coverage refers to a specific package of medical services including delivery and, as such, does not constitute full coverage comparable to the other schemes.

<sup>49</sup> OOP spending makes up an estimated 44.4 per cent of total health expenditure from all sources, or LAK126,400 per capita per year (NHA FY2012–13). In comparison, funds paid to health care providers by CBHI and HEF are just LAK 44,716 and LAK12,515 per capita, respectively (2014, NHIB data).

- **Target group HEF.** The target group includes the poor, i.e. 23.2 per cent of the population (see assumptions on poverty above).
- Per capita costs of MNCH and HEF coverage are assumed to increase with inflation plus an additional 5 per cent increase per year to reflect increases in utilization.
- Figures presented here are for government expenditure only. It is assumed the Government bears costs for districts currently funded by MOH (from NT2 and HSIP AF funds), as well as for the expansion to new districts to reach national coverage. Given these assumptions, government funding would amount to about 80 per cent of the total required budget.
- Administrative costs are 16 per cent, according to the current average across MNCH and HEF projects.

## Results

By 2030, nation-wide expansion of MNCH and HEF will require government spending of 0.27 per cent of GDP, or 1.30 per cent of government expenditure. These figures are extremely low by all international standards, and have to be interpreted with some caution. They are primarily a consequence of the overall low spending on health care in the country due to low utilization and a lack of advanced health services and trained medical personnel, especially at lower levels of the health care system. It must be assumed that the unit costs will probably have to be multiplied in the near future to ensure state-of-the-art medical care for all people.

## Scenario 2: Expansion of subsidized health insurance or universal coverage model with co-payments

### Assumptions

- **Target group.** Population not targeted by the other social health protection schemes (NSSF, HEF, MNCH), or 49.8 per cent of the population according to NHIB estimates. This percentage is assumed to decrease with the decline of the informal economy employment share.
- **Scenario 2a, subsidized CBHI.** Cost per person is the 50 per cent subsidy on insurance premiums as defined in Decree No. 470/PM. Assuming that insurance premiums should cover all OOP spending, subsidies would be 50 per cent of the HEF calculation above. Administrative costs are 10 per cent, as under the current CBHI model. Full coverage of the target population would be attained by 2030.

## Results

### Scenario 2a:

Providing coverage to the population not targeted by NSSF, HEF or MNCH using subsidized health insurance would entail a total cost of 0.22 per cent of GDP, or 1.05 per cent of government expenditure by 2030. Again and for reasons similar to those outlined in scenario 1, the figures need to be interpreted with caution; they are extremely low due to the overall low level of investment and spending on health in the country.

### Scenario 2b:

Providing coverage to the population not targeted by NSSF, HEF or MNCH using universal coverage with co-payments would entail a total cost of 0.35 per cent of GDP, or 1.68 per cent of government expenditure by 2030. Again and for reasons similar to those outlined in scenario 1, the figures are extremely low and have to be treated with great caution.

## Scenario 3: Free coverage of uninsured elderly and people with disabilities

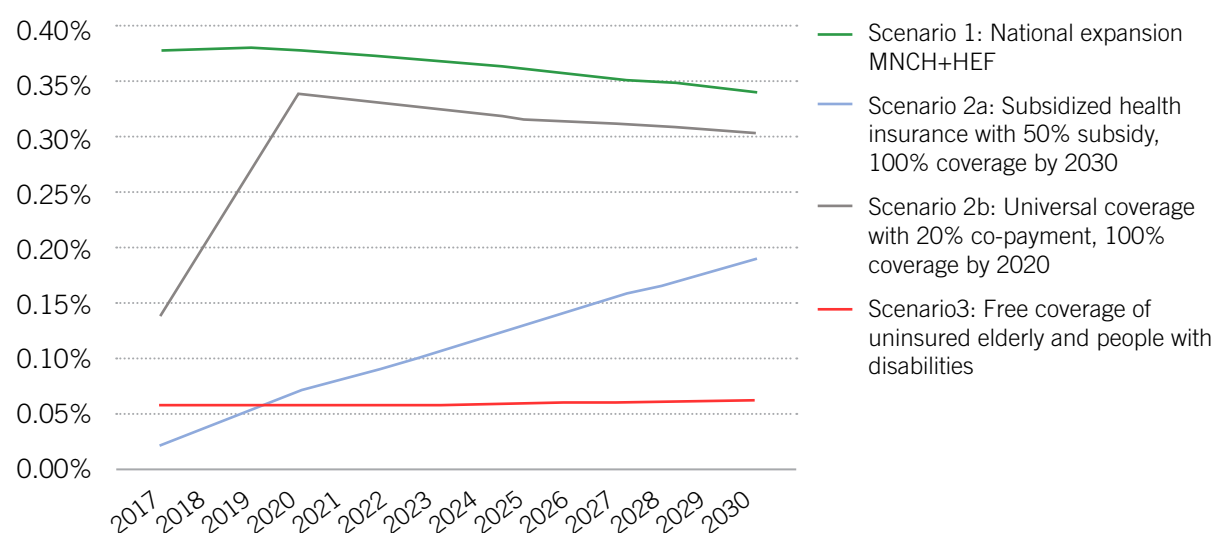
### Assumptions

- **Target group.** Population older than 60 years without NSSF health insurance and without HEF coverage (an estimated 413,000 people in 2017), and people with disabilities<sup>50</sup> (an estimated 93,000 people in 2017).
- Cost per capita is equal to out-of-pocket payments, according to the calculation outlined in scenario 1.

### Results

Providing free coverage to the uninsured elderly and people with disabilities would entail a total cost of 0.06 per cent of GDP, or 0.30 per cent of government expenditure by 2030.

**Figure 8. Health scenarios: Costs in % of GDP**



## 5.2 Children

The main recommendation in establishing the SPF for children is to implement a universal or targeted child support grant. We adopt this recommendation in the following scenarios:

**Scenario 1.** Universal benefit for families with children until their third birthday (benefit of 50 per cent of poverty line income).

**Scenario 2.** Universal benefit for families with children until their third birthday (benefit of 33.33 per cent of poverty line income).

**Scenario 3.** Benefit for families with children until their third birthday in poor districts only (benefit of 50 per cent of poverty line).

<sup>50</sup> According to household survey data (LECS 5, 2012–13, op. cit.), 1.46 per cent, of the population has a disability that affects their ability to work, go to school or perform other daily activities. This number seems roughly reliable, and is similar to disability prevalence in other countries (e.g. Viet Nam: moderate disability: 1.69 per cent, severe disability: 0.49 per cent). However, no officially operationalized definition of disability is currently available in Lao PDR. The number of eligible recipients of a potential disability benefit will inevitably depend on the identification criteria and mechanism.

In addition to its poverty reducing impact, the child support grant would support efforts to reduce pervasive child malnutrition by helping families overcome financial barriers to accessing adequate food. A strong body of scientific evidence indicates that early intervention in child development is one of the most cost-effective investments in creating human capital.

### Scenario 1: Universal Child Support Grant for all children aged 0-3 (standard benefit amount)

#### Assumptions

- The target population includes all children between their birth and their third birthday, an estimated 480,000 in 2017.
- Administrative costs are estimated at 10 per cent of total programme cost.
- The benefit level under this scenario is equal to the standard benefit amount defined above.

#### Results

The introduction of a universal child support grant for children of 0 to 3 years of age will entail a total cost of 0.54 per cent of GDP or 2.83 per cent of government expenditure by 2030.

### Scenario 2: Universal child support grant for all children aged 0–3 years (67 per cent of standard benefit amount)

#### Assumptions

- The target population includes all children between birth and their third birthday, an estimated 480,000 in 2017.
- Administrative costs are estimated at 10 per cent of total programme cost.
- The benefit level under this scenario is equal to two-thirds (67 per cent) of the standard benefit amount defined above.

#### Results

The introduction of a universal child support grant at a lower benefit level for children of 0 to 3 years of age will entail a total cost of 0.36 per cent of GDP or 1.89 per cent of government expenditure by 2030.

### Scenario 3: Child support grant targeted to those aged 0–3 years in poor districts (standard benefit amount)

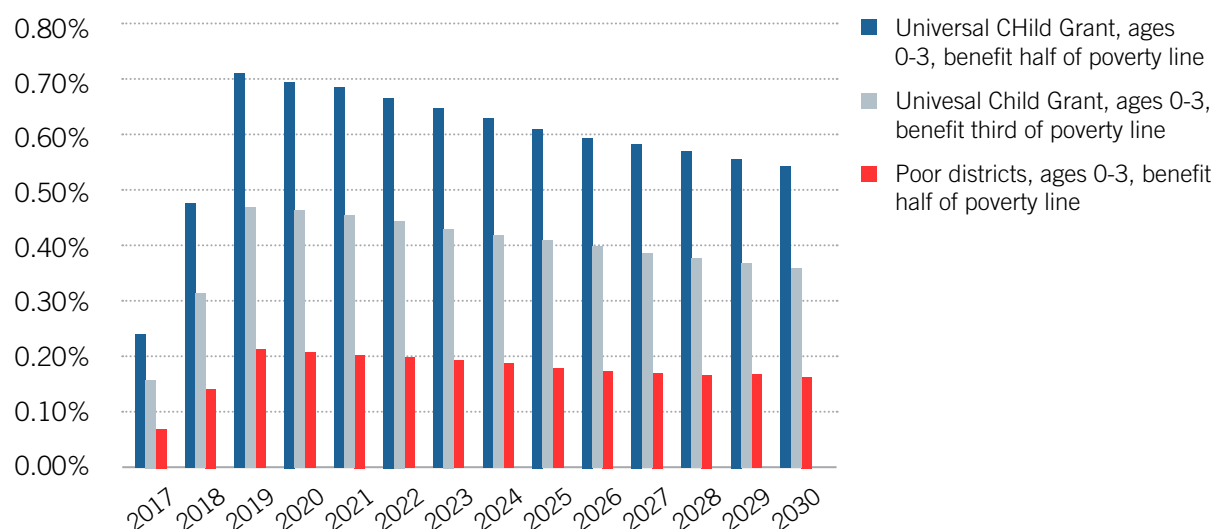
#### Assumptions

- Target population comprises children aged 0–3 years living in poor districts. This is assumed to be equal to 30 per cent of all children in that age group, an estimated 144,000 in 2017.
- Administrative costs are 10 per cent of total programme cost.
- The benefit level within this scenario is equal to the standard benefit amount defined above.

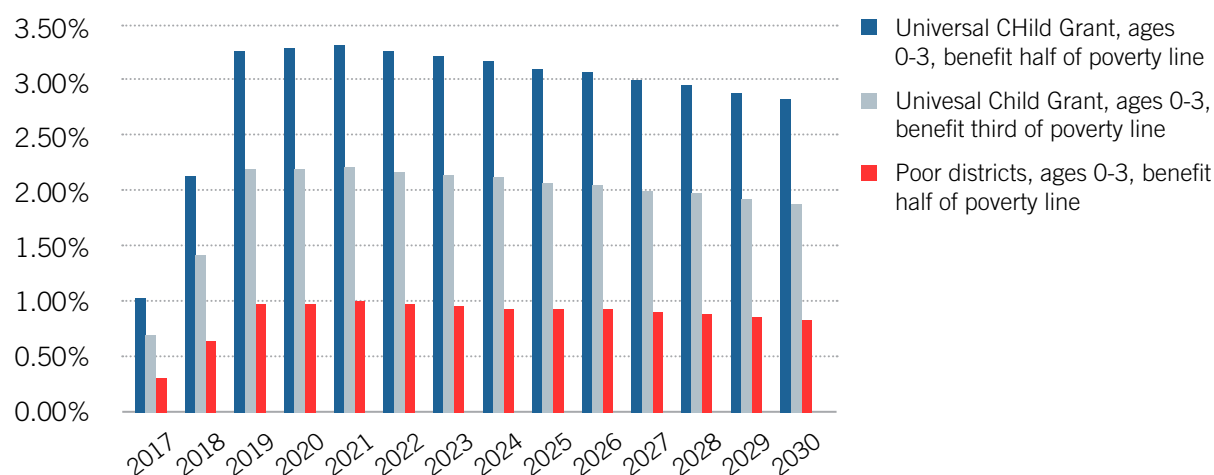
#### Results

The introduction of a child support grant for children of 0 to 3 years of age in poor districts will entail a total cost of 0.16 per cent of GDP or 0.85 per cent of government expenditure by 2030.

**Figure 9a. Cost projection of the introduction of a child support grant – in % of GDP**



**Figure 9b. Cost projection of the introduction of a child support grant – in % of expenditures**



### 5.3 Working age

To establish the SPF for the working age population, the main recommendations are to address employment and income insecurity through a public works scheme, and to establish a system of cash entitlements for the most vulnerable groups in the informal economy, including people with a disability or women in maternity. We adopt these recommendations in the following scenarios:

**Scenario 1a.** Maternity cash benefit (standard benefit amount).

**Scenario 1b.** Disability cash benefit (standard benefit amount).

**Scenario 1a: Cash benefit in maternity**

#### Assumptions

- **Target group.** Women in maternity who are not benefitting from maternity leave or from the NSSF

maternity benefit. As a rough estimate, we multiply the informal economy employment share (70 per cent in 2017, declining to 61 per cent by 2030) with the annual number of pregnancies (an estimated 160,000 in 2017).

- The benefit is paid as a lump sum upon birth, equal to 3.5 months of the standard benefit amount, to reflect the Labour Law stipulation of 3.5 months of paid maternity for formal economy workers.
- Administrative costs are 10 per cent.

## Results

The introduction of an informal economy maternity grant will entail a total cost of 0.03 per cent of GDP, or 0.15 per cent of government expenditure by 2030.

## Scenario 1b: Cash benefit in disability

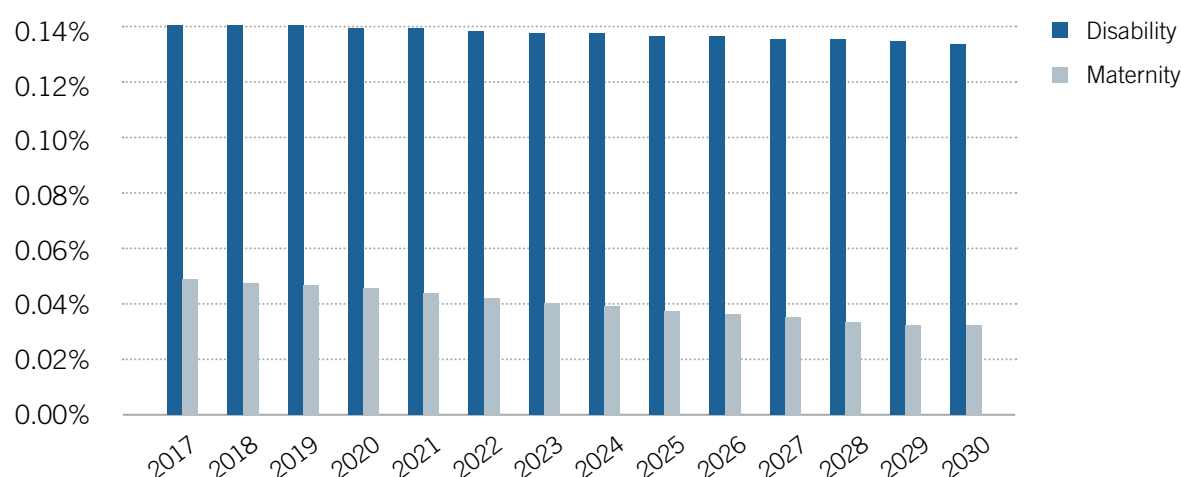
### Assumptions

- The target group are people with disabilities who are not covered by the NSSF disability pension/ long-term disability benefit. Estimated beneficiaries: about 93,000 (2017).
- According to household survey data (LECS 5, 2012–13) 1.46 per cent of the population has a disability that affects their ability to work, go to school or perform other daily activities. This number seems roughly reliable,<sup>51</sup> and is similar to disability prevalence in other countries (e.g. Viet Nam: moderate disability: 1.69 per cent, severe disability: 0.49 per cent).

## Results

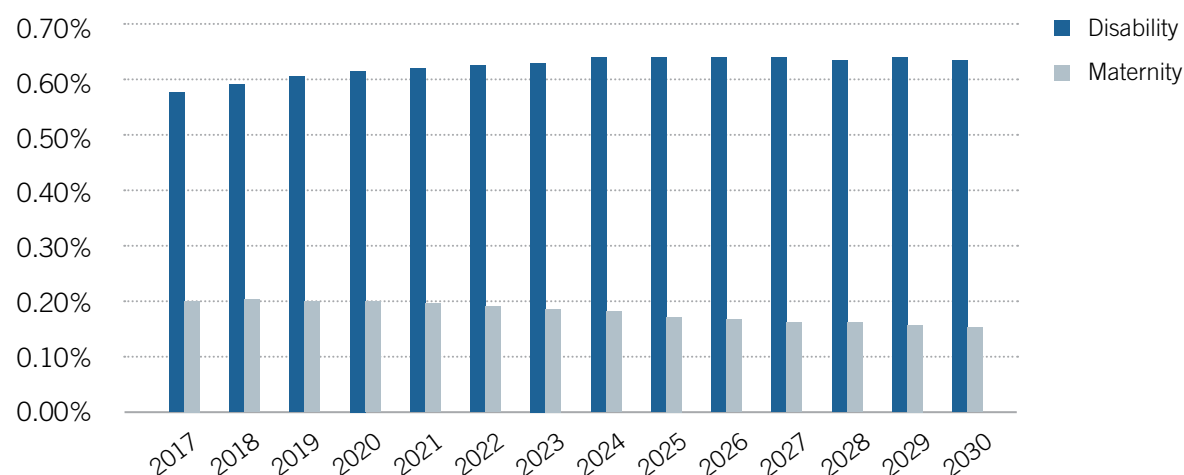
The introduction of a disability grant will entail a total cost of 0.13 per cent of GDP or 0.62 per cent of government expenditure by 2030.

**Figure 10a. Cost projection of maternity and disability benefits – in % of GDP**



<sup>51</sup> There is currently no officially operationalized definition of disability in Lao PDR. The number of eligible recipients of a potential disability benefit will inevitably depend on the given identification criteria and mechanism.

**Figure 10b. Cost projection of working age scenarios – in % of government expenditures**



## 5.4 Old age

To establish the SPF for people in old age, the main recommendation is to implement a universal or targeted pension grant to cover people outside the formal economy NSSF pension system. This recommendation has been adopted in the following scenarios:

**Scenario 1.** Universal social pension for people aged 70+ (standard benefit amount) from 2017, age 65+ from 2022, age 60+ from 2027.

**Scenario 2.** Universal social pension for people aged 75+ (standard benefit amount) from 2017, age 70+ from 2021, age 65+ from 2025, age 60+ from 2029.

### Scenario 1: Universal social pension, starting at age 70+ (standard benefit amount)

#### Assumptions

- **Target population.** People age 70+ who are not recipients of an NSSF old-age pension, an estimated 142,000 people in 2017. Currently, only 5.2 per cent of the elderly receive an NSSF pension. The eligibility age would be gradually reduced to reach 60+ by 2027, reaching an estimated 491,000 eligible beneficiaries.
- The number of elderly receiving an NSSF pension is based on ILO estimates of an actuarial valuation of NSSF pensions.
- Administrative costs are at 10 per cent of total programme cost.

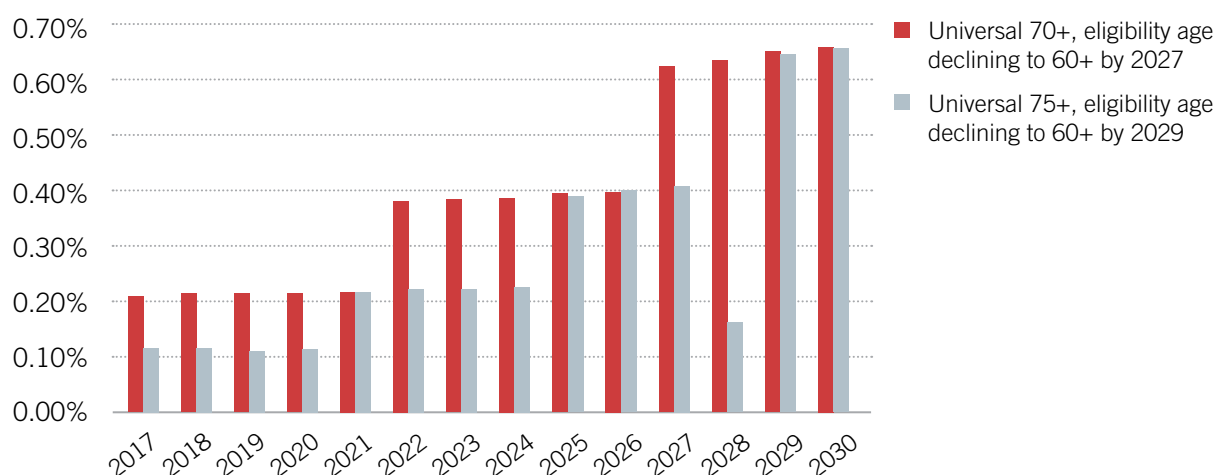
### Scenario 2: Universal pension for ages 75+ (standard benefit amount)

#### Assumptions

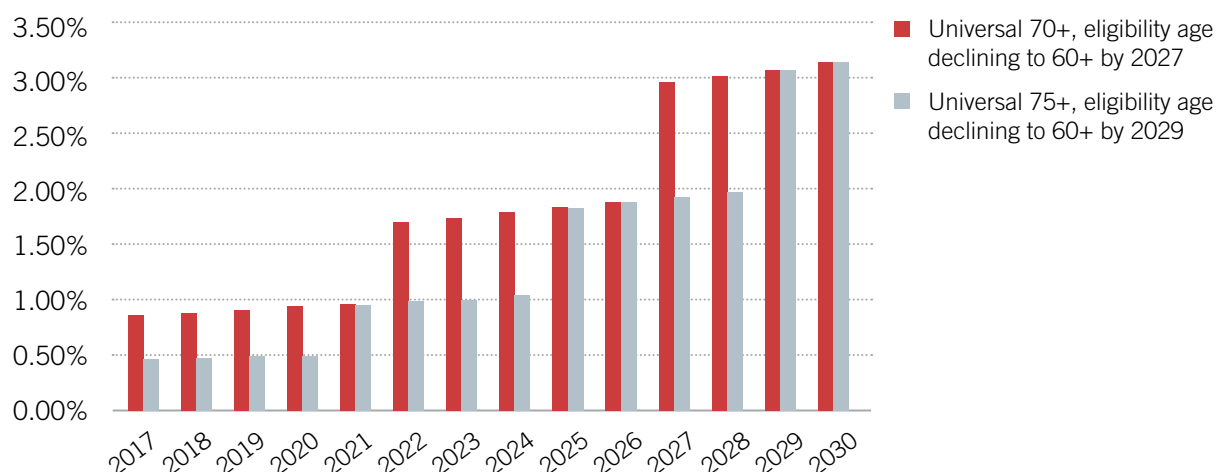
- The same assumptions apply as in Scenario 1, except the eligibility age begins at age 75 in 2017 (77,000 eligible beneficiaries), gradually falling to age 60 by 2029 (520,000 eligible beneficiaries).



**Figure 11a. Cost projection for old age scenarios – in % of GDP**



**Figure 11b. Cost projection for old age scenarios – in % of government expenditures**



## 5.5 Costing summary

The following summary presents a highly aggregated comparison of costs for several potential policy packages establishing a basic SPF for Lao PDR.<sup>52</sup>

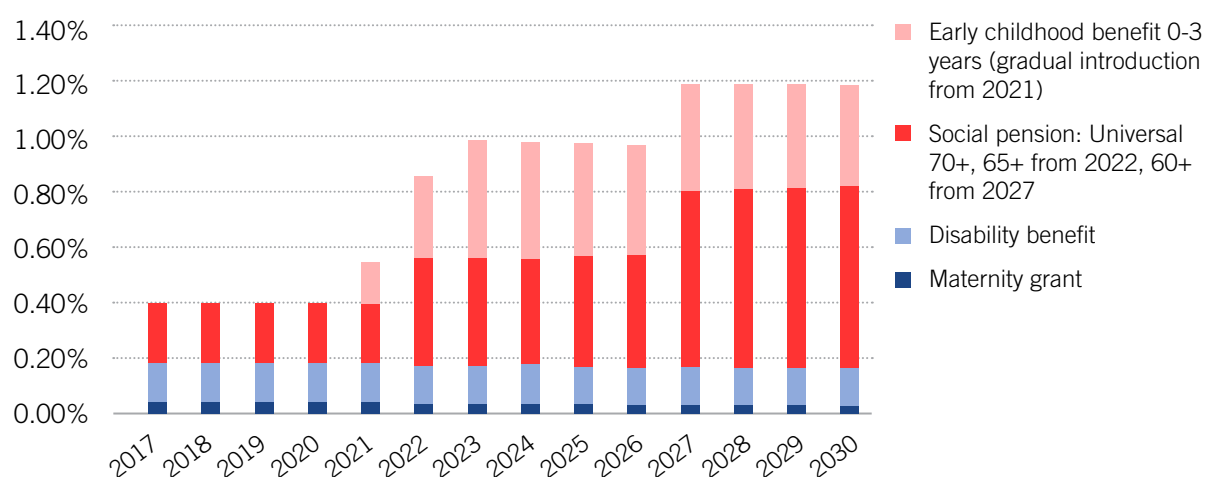
Figure 8 presents a package designed to achieve progressive implementation at a gradual increase in cost until 2030. This package consists of the following: (1) a universal early childhood grant targeting all families with children younger than three years, to be gradually introduced from 2021; (2) a monthly cash benefit for people with disabilities who are not insured under NSSF; (3) a cash benefit for maternity, paid as a birth grant to women who are not insured under NSSF; and (4) a universal social pension for elderly without an NSSF pension.

<sup>52</sup> Figures presented here assume full programme implementation and full coverage of the target population. Real world costs would likely be lower, given gradual programme implementation and incomplete coverage. In any case, assumptions regarding the implementation of these potential policies would be highly speculative at this point; cost projections are provided only as a rough guide for discussion. Given the robust growth assumptions combined with the theoretical *ab initio* full take-up of the policy measures, this costing shows falling or stagnating long-term costs for each individual policy as measured in per cent of GDP. In reality, expenditure will no doubt gradually increase over the coming years until it reaches a state of maturity at a time when the take-up and implementation of the measures will have reached the full target population.

The benefit amounts for all target groups is equal to 50 per cent of the poverty line – LAK135,000 per month in 2017 rising to LAK377,000 per month by 2030. Many other combinations of scenarios could be chosen, with results depending on the chosen policy parameters. Figure 9 illustrates costs for an alternative scenario with an immediate introduction of the childhood benefit. Figure 10, on the other hand, assumes a higher benefit amount equal to the poverty line. Figure 11 presents a package of policies to achieve universal health coverage for the uninsured population: (1) full national implementation of MNCH and HEF; (2) coverage of the uninsured through subsidized health insurance; and (3) free coverage of the uninsured elderly and people with disabilities.

In conclusion, this simple costing exercise suggests that an initial package of SPF provisions could be designed based on national priorities within a fiscal frame of about 1.2 per cent of GDP (excluding health coverage). While this would pose a substantial challenge within the current budget position, the fiscal outlook over the coming decade suggests increasing room for gradual implementation, beginning with the most pressing priorities, over a timeframe of several years. As discussed in the background section, however, the availability of fiscal space depends strongly on managing expenditures (public sector wage costs, capital expenditure and interest payments) and raising revenues (improvements in tax and customs enforcement or broadening of the tax base).

**Figure 12. Package 1: Cost projection for full programme implementation – in % of GDP**



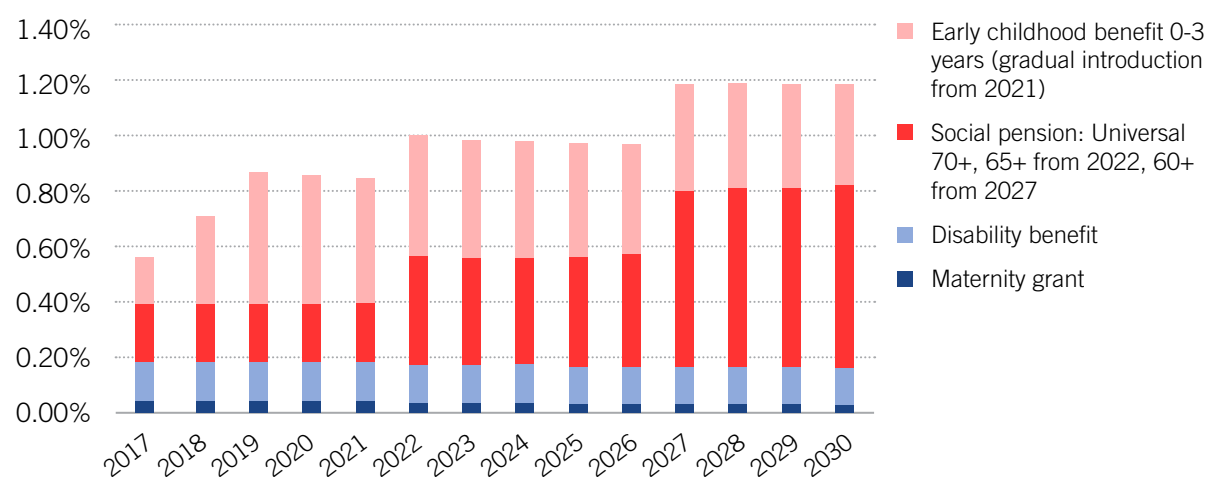
**Table 9. Package 1: Cost projection for full programme implementation – % of GDP**

% GDP	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Maternity grant	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.03
Disability benefit	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.13	0.13	0.13	0.13	0.13
Social pension: Universal 70+, 65+ from 2022, 60+ from 2027	0.21	0.21	0.21	0.21	0.22	0.38	0.38	0.39	0.39	0.40	0.63	0.64	0.65	0.66
Early childhood benefit 0–3 years of age (gradual introduction from 2021)					0.15	0.30	0.43	0.42	0.41	0.40	0.39	0.38	0.37	0.36
Total (%)	0.40	0.40	0.40	0.40	0.55	0.85	0.99	0.98	0.97	0.97	1.19	1.19	1.19	1.19

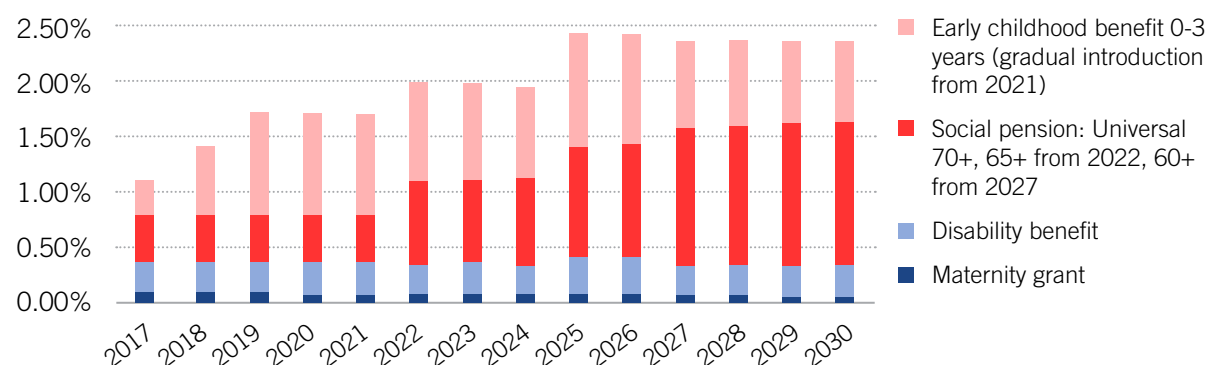
**Table 10. Package 1: Cost projection for full programme implementation – billion LAK**

billion LAK	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Maternity grant	58	62	67	72	76	80	84	89	111	117	106	113	121	129
Disability grant	166	181	199	218	239	261	285	312	341	374	409	448	490	536
Social pension: Universal 70+, 65+ from 2022, 60+ from 2027	253	276	303	337	373	720	799	887	991	1 111	1 919	2 143	2 390	2 675
Early childhood benefit 0-3 years (gradual introduction from 2021)					263	561	898	961	1,026	1 098	1 178	1 269	1 363	1 463
Total:	478	519	568	626	951	1 623	2 066	2 249	2 452	2 682	3 613	3 972	4 363	4 804

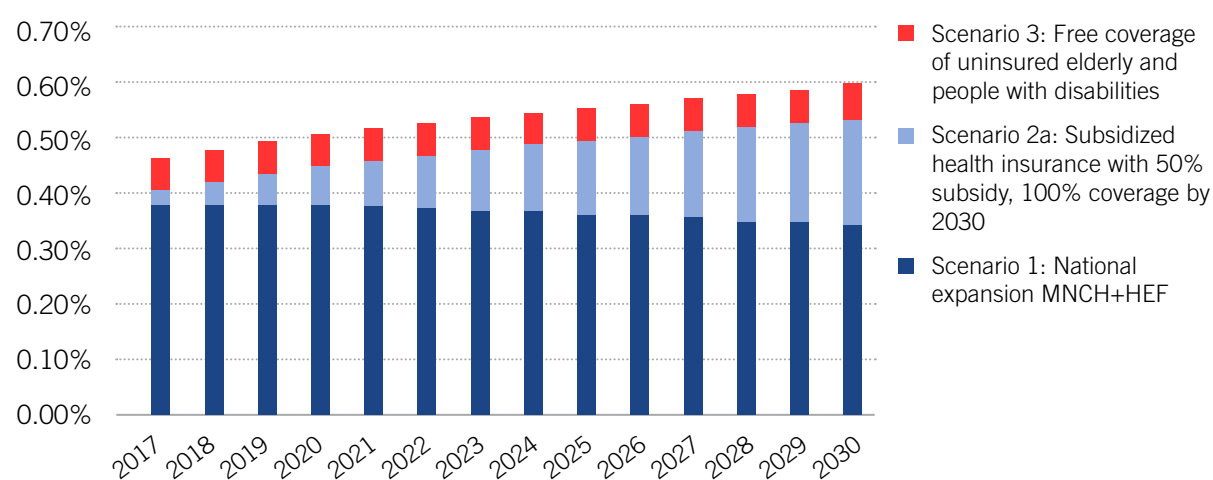
**Figure 13. Package 2: immediate introduction of child benefit – in % of GDP**



**Figure 14. Package 3: higher standard benefit amount (100% of poverty line) – in % of GDP**



**Figure 15. Health policies – in % of GDP**



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# Annex: Costing methodology and assumptions

This costing exercise applies the Rapid Assessment Protocol (RAP), a costing tool developed by the ILO on the basis of an earlier UNICEF/ILO costing tool.

The exercise, based on policy scenarios developed from recommendations emerging from this assessment, provides projected costs for these policy scenarios until 2030, including comparisons of costs with GDP and government revenues and expenditures.

To demonstrate the potential range of costs associated with different policy design choices, where relevant, several policy scenarios are presented for each recommended social protection scheme, including the choice of target groups for such issues as social welfare benefits or age requirements for pensions or child grants.

The RAP uses a simple methodology that builds on population projections, labour force participation rates, and projections of GDP growth, productivity, inflation and poverty rates as well as government revenues and expenditure. The main assumptions and background calculations are provided below.

## Population projections

Population projections until 2030 (by gender and age) are derived from UN World Population Prospects (WPP) projections with the following adjustments:

- Total population is adjusted to match official census results for 2005 and 2015.
- Population growth for other years is adjusted to match the trend between the 2005 and 2015 censuses.

Age	2015	2020	2025	2030
0–4	800 770	807 068	777 938	739 699
5–9	759 576	781 583	789 798	764 864
10–14	697 441	742 814	767 167	778 255
15–19	719 136	682 650	727 366	753 197
20–24	722 436	693 760	661 239	708 254
25–29	599 393	688 937	667 096	634 468
30–34	460 714	571 316	661 758	641 933
35–39	367 647	440 332	549 472	642 594
40–44	310 809	353 416	425 092	533 442
45–49	261 128	298 382	341 237	411 573

Age	2015	2020	2025	2030
50–54	223 537	249 262	286 244	328 649
55–59	181 228	209 020	235 221	272 133
60–64	141 409	164 744	191 917	217 881
65–69	99 549	122 292	144 617	170 994
70–74	68 932	79 932	99 596	119 879
75–79	45 193	48 686	57 649	73 378
80+	33 501	39 009	43 596	50 550
<b>Total:</b>	<b>6 492 400</b>	<b>6 973 202</b>	<b>7 427 003</b>	<b>7 841 745</b>

### Labour force participation rates

Activity rate projections until 2030 (by gender and five-year age groups) are taken from the ILOSTAT database.

### Informal employment

Data on the share of informal employment in total employment is available for 2005 (census) and 2010 (Labour Force Survey). As of 2010, 83.9 per cent of the workforce were in informal employment (self-employed and unpaid family workers), with a declining trend since 2005. The model assumes this share continues decreasing in line with the trend observed between 2005 and 2010, reaching 76.1 per cent by 2020.

### Macroeconomic and fiscal framework

The costing model uses IMF-estimated projections of GDP growth and inflation for the period until 2021.<sup>53</sup> For the period 2022–30, the model assumes these indicators remain constant at 2021 levels.

Government revenue and expenditure are based on projections of the World Bank Lao Economic Monitor, May 2016 edition, with the additional assumptions based on discussions with World Bank specialists. According to these assumptions, government revenues and expenditures will continue declining in per cent of GDP in the period until 2030 as mining revenues and grants decrease and additional power exports cannot fully balance this shortfall.

<sup>53</sup> IMF: *World economic outlook database*, April 2016, <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx> [accessed 20 Aug. 2017].

Estimate	Projections									
	2016	2017	2018	2019	2020	2021	2022	2023		
<b>GDP</b>										
• (billion LAK)	110 682	119 774	130 567	142 986	157 229	172 779	189 867	208 645		
Growth rate (real)	7	7	6.8	6.8	6.8	6.8	6.8	6.8		
Per capita (LAK)	16 803 357	17 920 911	19 254 621	20 788 012	22 547 604	24 444 736	26 515 823	28 773 893		
Inflation (%)	2.3	2.7	3.1	3.3	3.1	3.1	3.1	3.1		
<b>General government revenue</b>										
• (billion LAK)	21 806	23 244	24 913	26 899	29 198	32 013	35 080	38 443		
% GDP	20.1	19.8	19.5	19.3	19.0	19.0	18.9	18.9		
<b>General government expenditure</b>										
• (billion LAK)	27 339	28 960	30 830	33 047	35 593	38 651	41 941	45 508		
% GDP	25.2	24.7	24.1	23.7	23.2	22.9	22.6	22.3		

Estimate	Projections									
	2024	2025	2026	2027	2028	2029	2030			
<b>GDP</b>										
• (billion LAK)	229 280	251 955	276 874	304 257	334 348	367 415	403 752			
Growth rate (%)	6.8	6.8	6.8	6.8	6.8	6.8	6.8			
per capita (LAK)	31 235 853	33 924 230	36 848 682	40 043 443	43 530 213	47 335 194	51 487 504			
Inflation (%)	3.1	3.1	3.1	3.1	3.1	3.1	3.1			
<b>General government revenue</b>										
• (billion LAK)	42 131	46 176	50 613	55 481	60 822	66 684	73 118			
% GDP	18.8	18.8	18.7	18.7	18.6	18.6	18.5			
<b>General government expenditure</b>										
• (billion LAK)	49 372	53 559	58 726	64 396	70 619	77 450	84 948			
% GDP	22.0	21.8	21.7	21.7	21.6	21.6	21.5			

## Labour productivity

Between 2005 and 2010, overall employment grew at a far slower pace (3.1 per cent per year) than real GDP (8.0 per cent). In other words, at an average of 4.7 per cent per year, labour productivity growth for this period was high. This was mostly due to formalization of labour and a move towards more highly skilled employment. The model assumes that this high productivity growth persists for the projected period.

## Minimum wage

As of this writing, the official minimum wage from April 2015 had stood at LAK900,000 per month. It is assumed the minimum wage will increase with inflation.

## Poverty line and poverty rate

The most recent consumption-based estimate of the poverty line is for 2012–13, using data of the *Lao expenditure and consumption survey*.<sup>54</sup> The poverty line was calculated following a cost of basic needs approach, and was estimated at LAK203,614 per capita per month, with a poverty rate of 23.2 per cent.

These figures are based on a concept of absolute poverty, where poverty is defined in relation to a minimum subsistence consumption basket adjusted for price inflation. For the purposes of this exercise, a more relative concept of poverty is applied, going beyond a subsistence approach to take into account the rapid increases in per capita GDP and standard of living in Lao PDR.

Historically, the absolute poverty line has increased at about the same pace as the inflation rate. To get a rough estimate of relative poverty, a faster increase of the poverty line is applied, one equal to per capita nominal GDP growth over the projected timeframe. The poverty rate is held stable, as the current downward trend depends on a slower rise of the poverty line (about equal to inflation).

## Macroeconomic and fiscal projections: GDP, inflation, government budget

Projections until 2020 are taken from *IMF World economic outlook, April 2015*.<sup>55</sup>

## Maternity

Number of maternity cases per year is assumed to equal the number of children younger than one year in the same year.

## Social health protection

Data on social health protection schemes (HEF, MNCH, CHIB, NSSF medical benefits) is provided by NHIB, including data on current coverage, utilization and the cost of coverage per person.

## Benefit levels

The chosen benefit amounts given in these scenarios are very low, reflecting the limited available fiscal resources. This costing assumes that a standard benefit amount would be paid to recipients of cash benefits in different categories (social pension, maternity benefit, disability benefit). For some especially vulnerable groups, such as people with very severe disabilities, children with disabilities,

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<sup>54</sup> LECS 5, op. cit.

<sup>55</sup> IMF, op. cit.

or elderly with disabilities or without family support, a higher benefit multiplier could be applied so that these groups receive, for example, 2.0 times the standard benefit amount.

The standard benefit amount is defined as 50 per cent of the poverty line derived from the LECS 5 household survey (LAK101,807 per month in 2013), and increases annually at the same rate as the growth of average wages in the country. The costing also includes a comparison with benefit levels starting at 100 per cent of the 2013 poverty line.

### Standard benefit amount in kip per month

	2013	2014	2015	2016	2020	2025	2030
Benefit at half of poverty line	101 807	111 744	118 484	125 833	169 360	250 309	372 588
Annual increase (wage inflation, %)		9.8	6.0	6.2	8.2	8.2	8.3

This benefit remains very low. It is less than the international line of extreme poverty of \$1.25 PPP per day, and is also very low compared with benefits under the formal economy social security system (NSSF) and compared with the national minimum wage (about 14 per cent of the minimum wage).

### Coverage and take-up rates

Figures presented here assume full programme implementation and full coverage of the target population. Consequently, real world costs would likely be lower with gradual implementation and incomplete coverage. However, assumptions regarding implementation of these potential policies would necessarily be highly speculative at this point, and cost projections are provided only as a rough guide for discussion.

### Falling costs over time

Most scenarios show a marked cost decline over time. This is due to the fact that costs (assuming very low benefits levels) are expressed as percentage of GDP, which is projected to continue growing strongly.



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